
Answers

In the Strategic Professional Examinations it is not always possible to publish suggested answers which comprehensively cover all the valid points which candidates might make. Credit will be given to candidates for points not included in the suggested answers, but which, nevertheless, are relevant to the requirements. In addition, in this integrated case study examination candidates may re-introduce points made in other questions or parts of questions as long as these are made in the specific context of the requirements of the question being answered.

The suggested answers presented below inevitably give much more detail than would be expected from most candidates under examination conditions, and include most of the obvious points evidenced from the case information. The answers are therefore intended to provide a structure of the approach required from candidates, and cover the range and depth of knowledge relating to each task which might be demonstrated by the most well prepared and able candidates. They are also intended to support revision and tuition for future examinations.

1 (a) Briefing Note Section 1

(i) The principal-agent relationship of the BCO

Fiduciary relationship

The BCO's board of trustees, acting as the principal, is responsible for good governance, but they rely on many different people to be able to govern well: staff, volunteers and importantly, the management board. In a principal-agent relationship, the principal engages the agent to perform a service on their behalf which involves delegation of some decision-making authority to the agent. The relationship creates a fiduciary relationship between the board of trustees and the management board, which means the management board, acting on behalf of the trustees, must carry out the assigned tasks with the principal's best interests (and therefore those of the BCO's diverse stakeholders) as a priority.

Represent stakeholders

The board of trustees, as the principal, represents the interests of the BCO's stakeholders, which will include not only those stakeholders and organisations which have contributed or donated funds to the charity but also the people and animals living in the wildlife communities we operate in, our staff, our wildlife park visitors and the wider community. The management board, as the agent, undertakes responsibilities assigned by the board of trustees. The management board therefore has an obligation to undertake their responsibilities assigned with a certain level of skill and care, using the particular skills and expertise each member has been employed for.

Reward

As agents, the management board is financially rewarded to discharge responsibilities delegated to it, without conflicting with the interests of the stakeholders which the board of trustees represent. The board of trustees is not financially rewarded for their role, as it effectively acts on behalf of the stakeholders of the BCO.

(ii) The advantages of a two-tier board structure

- One advantage of this governance arrangement is that there is a clear and distinct separation of duties between the monitoring function of the board of trustees and those being monitored (the management board).
- Additionally, the supervisory role of the board of trustees acts as an effective safeguard against management inefficiency and against fraud or irregular activities. All of this helps to maintain the trust of the stakeholders, in particular those donating funds to the BCO, who will seek reassurance that their funds are being used appropriately by the BCO.
- A further advantage is that the board of trustees, in its supervisory role, will consider the needs of all of our stakeholders, including staff and the wider community to ensure that their interests are also taken into account and the actions of the management board do not affect them adversely.
- The two-tier system also encourages transparency within the charity, between the two board levels and between the board of trustees and the stakeholders they represent. This transparency is particularly important in the charitable sector whereby the charity must be accountable for the diverse range of funds it receives.

(iii) How our mission and objectives meet stakeholder needs

- For most profit-seeking organisations, the mission and objectives are largely driven by the needs of the principal; that is the owners or shareholders. In particular, the objectives will be mainly focused on ensuring that the principals' returns are maximised. However, as already discussed, our principals are acting on behalf of a wide range of stakeholders and therefore our mission and objectives will have a different focus.
- Our mission is firmly focused on protecting and conserving the world's wildlife for the future. This meets the needs of a wide range of stakeholders, including the wildlife itself and the people who live and work within the communities in which they live. In addition, the wider community will also benefit from a world in which wildlife can thrive and live safely in its natural habitat.

- The first objective of protecting and returning the 100 threatened species to their natural habitats meets the needs of the threatened species themselves and the communities which they come from. Therefore, this objective meets our stakeholder needs.
- The second objective of investment in 100 wildlife habitat projects across the world through training and education for local staff and communities also meets the needs of our stakeholders, including staff and local people, who require the specific knowledge and skills to ensure that habitat projects are successfully run and managed and that donors' funds are used effectively.
- The third objective to ensure 1 million people are better connected with nature meets the needs of our wider communities and population to understand and appreciate the natural world they live in. If the wider population appreciate and understand the natural world better, this will impact directly on the wildlife species the BCO is ultimately set up to protect.

(b) Briefing Note Section 2

Financial performance evaluation

The BCO maintained more or less a steady state from 20X0 to 20X1, based on levels of income and expenditure, although our surplus decreased by \$422,000. Income from charitable activities increased by 5% in the year, much of which was as a result of admissions to the wildlife park. However, visitor numbers to the wildlife park were down by nearly 2% (258,583, compared to 263,595 in the financial year 20X0), meaning that the increase in revenue from wildlife park admissions came from the increased price we charged this year to visitors to enter the wildlife park. This is a concern, as visitors to the wildlife park are a key source of income. If visitors continue to fall, then this could have a knock-on impact on income from other sources, such as individual membership and income from the wildlife shop and café, if less visitors use our facilities.

However, despite the fall in visitor numbers the income from the wildlife park shop and café increased by 15%, from \$4,923,000 to \$5,675,000. This is encouraging and demonstrates that our shop and café are popular and a potential source for future revenue growth. This suggests that our shops and cafés are operating effectively.

Corporate membership income has grown significantly (133%) from \$90,000 to \$210,000 but is still a very small proportion of our income (1%) and we must look to grow this, through further work with corporate partners. Individual membership grew only slightly which we need to improve on. However, this could be looked at positively, considering that visitor numbers to the wildlife park dropped in the year and therefore our conversion rate of converting visitors to members has in fact improved. Therefore, our on-site membership marketing activities appear to be operating effectively but we still need to do more to convert visitors to members and attract more visitors overall.

Two areas of concern in relation to our revenue from commercial activities are from education and training programmes and donations and legacies. Income from running education and training programmes was 6% lower than last year. This, combined with the KPI showing that we ran fewer external education and training programmes in 20X1 compared to 20X0 (145 v 151) is concerning, when considering our long-term objective of increasing our commitment to educating and training our stakeholders. This clearly does not meet this objective. This is something we must focus on in the coming years if we are to ensure that our strategic objectives are met.

Donations, grants and legacies income reduced by nearly 16% (from \$8,625,000 to \$7,283,000). This is particularly concerning, as these are our primary sources of income. However, we could perceive this as a positive direction, as our total income in fact increased in 20X1, despite this decrease in this primary revenue source, meaning we are improving in other revenue sources. In 20X0 donations, grants and legacies were 42% of total income, whereas in 20X1 it was 35% of total income. This indicates that we have reduced our reliance on this income source and increased other sources to compensate, although we should note that some of this has come from the sale of property assets which is not a recurring or sustainable source of commercial income. This means we must not be complacent, as the donations, grants and legacies will continue to be important to source of income in the future and therefore we must try to maintain our active work in seeking these sources of income and looking for ways to support that donor income with sustainable commercial initiatives.

Expenditure has increased in the year by nearly 2.5%, which, although not overly concerning, must be something we monitor closely. We spent significantly more on animal support costs, which increased in the year by 8%. This is something that we must investigate further. This rise may be due to inflationary pressure on the underlying costs of resources (veterinary costs, animal feed and staff pay rises) or it could suggest we are being inefficient in our cost management procedures and are not controlling these costs effectively and making the best use of our resources. We have an obligation to obtain the optimum value for money for our stakeholders and we must manage our funds appropriately.

Costs of commercial operations reduced by 15% which is very positive. This may be due to fewer properties to manage (we sold a property in 20X1) or it could be because we have managed our shop and cafe more efficiently. We may be able to learn lessons from our cost management processes in our commercial operations and transfer these to our management of animal welfare costs.

Non-financial performance evaluation (key performance indicators)

The overall number of staff we employed decreased but we were able to attract more volunteers to work for the BCO. Although this should be seen as a positive factor, in that we are clearly attracting external support for our activities, we must be careful that we do not use volunteers to replace the skills and expertise of employed staff, some of whom will be trained experts. Obviously, we will need to monitor whether it is skilled animal welfare staff who are being replaced by volunteers, or more unskilled temporary staff in non-animal related areas (such as visitor centre staff). Loss of expert staff and a net reduction in human capital may impact detrimentally on our effectiveness.

As mentioned above, visitor numbers to the wildlife park are down but on average each visitor actually spent more money when they visited (\$3.27). This is a positive factor and we should look to investigate how we can encourage visitors to spend more in the wildlife park, by increasing and continually improving the facilities and attractions we have on site and also investigate more fully where customers spend the most.

Training days were down on 20X0 as too were external training programmes run. These outcomes do not fit with our objectives of increasing education and training and we must address these if we are to achieve our stated strategic objectives.

Our programmes to re-introduce animals to the wild continue to be successful as more animals were returned to their natural habitats in 20X1 compared to 20X0. This should be a key focus of our performance measurement, as ultimately, this is the reason for our existence. All of our activities are carried out with this as our main objective.

- 2 (a) **To: Chief finance officer**
From: Senior finance manager
Date: XX/XX/20X1
Subject: The impact of the external environment on the BCO's strategic objectives

Introduction

When setting our strategic objectives, a key element of this process is to evaluate the external environment and its impact on those objectives. Importantly, we must continually assess our external environment to monitor its continued impact on our strategies and to identify how we should respond to these external events to ensure we maintain our strategic direction. Achievement of our strategic objectives will be affected by the current global economic climate and the pressure this places on individuals and corporations, on whom we rely for donations and for support.

Political environmental impact

As noted in a recent charity industry research article, many governments around the world have been financially overstretched by the global recession. This has had severe consequences for ourselves and the whole charity sector, as increases in austerity measures have impacted negatively on the business community and on the wider population. At the same time, demands placed on charities like ourselves have in fact increased as a result of the political and economic climate.

The recent charity sector report also noted that publicly-funded grant awarding bodies have reduced support for charities both financially and in the number of volunteers, evidence again of changing political priorities that we are vulnerable to as an organisation. However, this aspect of the political environment has not had such a significant effect on the BCO in the last year, as we were still able to secure \$2 million of publicly funded grants in 20X1, evidence of effective management of this aspect of our external environment.

Economic environmental impact

All of our strategic objectives will require significant financial resources, in particular our wildlife protection activities, both within the wildlife park and in the overseas locations where we operate our programmes. In the next five years our primary objective is to protect 100 species and return them back to the wild. This will be expensive and therefore we will need to balance this with the financial resources we have available.

A large proportion of our donations come from legacies which, from our annual report, have been decreasing in recent years. This is a major concern for its impact on our ability to achieve our strategic objectives, without reducing the funding we put into these projects or reducing the number of projects we invest in. It is likely that as donors face periods of economic uncertainty, then donations to charities will likely decrease, threatening the achievement of our strategic objectives.

Compounding this is the fact that the demands placed on charities like ours are in fact increasing as a result of the current economic and political environment. As the recent research report highlighted, many global nature and animal protection charities have seen demand for their support and protection increase, as animal habitats are being destroyed by human activities, largely caused by changing economic priorities and policies. Our strategic objectives of returning 100 species to the wild and investing in 100 projects will be threatened if such economic pressures increase over the next five years.

Also, as evidenced in our recent financial results, our operational costs are also increasing, possibly as a result of inflationary pressures caused by the current economic environment. We have a duty to our stakeholders to operate economically, but this is going to be challenged and ultimately may impact on the quality of our programmes, if costs continue to rise.

Social environmental impact

Evidence from the recent charity sector report suggests that some of the decrease in charitable funding has been caused by 'donor fatigue', whereby people have become over exposed to charitable requests and therefore, have reduced or stopped donating. As competition amongst charities increases for the limited charitable donations available, it is inevitable that society

will be put under pressure and may in fact turn away from charitable funding. This would be a severe risk to all of our strategic objectives, as without these donations, and the continued awareness and support from society, we simply cannot function. This is both from a financial point of view and from our staffing and volunteering perspective. Pressurised fund-raising tactics employed by some charities, such as bombarding donors with donor requests by post, email and on the streets has clearly had a negative effect on donation levels across the whole sector and we must identify strategies to minimise this impact.

Understanding the changing demographics is also an important aspect of our environmental analysis. As the research report suggested, the younger generation of donors have been brought up in a time of austerity and therefore less likely to donate spare money to charitable causes. This age group however is more accessible, through changing technology, which we could and should exploit.

Technological environmental impact

Technology could be viewed as a positive or negative influence on our strategic objectives. The internet and its global reach has allowed our message to be spread globally through the use of our website, which we intend to re-launch next year. Improved communication about all of the work and activities we undertake could have a significant positive impact on our ability to generate donations from further afield than Geeland.

However, the technological environment has advanced beyond the application of an informational website, allowing for the opportunity to build better relationships with stakeholders through the use of such technological applications of online marketing, online education and training, online donations and a wide range of interactive social media applications. A failure to innovate or update systems to match the needs of society we now operate in may be a major downside to us.

Ecological environmental impact

Fundamentally, the BCO was set up to meet a demand to protect the ecological environment, and our key external drivers have, and always will be, primarily to meet ecological needs. As the recent research report suggest, many global nature and animal protection charities have seen demand for their support and protection increase dramatically, as habitats around the world are being increasingly destroyed by man-made activities, yet year-on-year these organisations struggle to maintain stable funding levels. Therefore, the changing and growing ecological demands placed on us will present us with both opportunities and challenges in the future. It is likely that, with increasingly limited resources, we are going to have to prioritise the work we do and the areas we invest in, which may compromise the achievement of our first two strategic objectives.

Legal environmental impact

Charities have no doubt become more aggressive in trying to win donor support and some local authorities have banned street donations in their local towns to stop aggressive donor collection behaviour. This also impacts badly on the general reputation and perception of the sector. Also, more legislation is expected to reduce the use of 'hard-sell' marketing tactics used by some charities. Even if we are not involved in such tactics ourselves, this legislation will affect us and this may impact on our ability to raise funds in certain areas, such as on-street collections or postal adverts. With pressures already facing us on reduced income streams, this additional legislation could impact further on our income, thus impacting on achievement of our strategic objectives.

Summary

The current external environment is creating significant pressures on ourselves and the charity sector as a whole and these pressures will affect our ability to raise sufficient funds and awareness of our activities to achieve our strategic objectives, but there are some significant opportunities associated with some of these factors. It will be critical for us to therefore constantly monitor these external factors to assess how we can address and manage their effects on our strategic objectives, particularly in their impact on our ability to raise funds.

(b)

Slide 1:

Social Media Presence

Features:

- Two-way communication
- Highly interactive
- Multi-media – text, videos, audio

Benefits:

- Global 24/7 communication
- Reach wide demographic
- Inexpensive form of communication and marketing
- Build emotional connection proactively

Notes

Social media is a critical component of many modern organisations' e-business strategy and is an increasingly effective strategy for charities to adopt to interact with supporters globally. Social media will allow us to enter into two-way communication and engage with a vast number of supporters one-to-one.

Social media platforms are especially relevant if we want to engage with a younger generation of supporters. Comment boards, forums, likes and tweets give us the opportunity to engage proactively with those who are interested in and support the BCO's work. This opens up lines of communication for those who want to make direct contact with us, which are currently not available.

The biggest advantage is that social media has a global reach and is inexpensive. Social media can therefore be an effective way for us to build global support, boost donations, share success stories, encourage people to sign up to campaigns or to volunteer and to demonstrate the impact of our animal protection work around the world.

Importantly, social media gives the BCO the chance to make emotional connections. Use of images, videos and human reactions are what will really bring the work of our charity to life. Potential volunteers are more likely to get involved if they can picture the animals and habitats we are trying to help. Donations will be more forthcoming if people can directly see and experience the work we do.

Social media encourages our supporter to interact through 'likes', 'comments', and writing blogs or uploading photos and videos to personalise involvement with us. Using social media could help us create our own BCO online community.

Slide 2:

On-line education and training delivery

Features:

- Web-based training modules
- Use mobile technologies – laptops and smartphones
- Electronic resource library
- Continuous availability

Benefits:

- Cost savings in physical delivery
- Globally accessible training on demand
- Savings in time and resources
- Source of income

Notes

One of our strategic objectives for the next five years is to provide training and education for staff, volunteers and communities, and a further strategic objective of delivering online education and awareness programmes to connect people to the natural world. Both of these objectives will be costly in terms of time and money and without online delivery may in fact be impossible to realistically achieve.

Using our website, we can offer web-based training and education programmes to our staff and volunteers anywhere in the world, accessible through a range of mobile devices and at any time of day or night. Online delivery allows global access, meaning we can offer training and education programmes globally without having to spend money on sending training staff and physical training documents and manuals. This will be a huge cost saving for us.

On-demand access also offers total flexibility, making it more likely that users will make use of our resources at a time that suits them. This means they are not having to use vital work time to attend physically delivered courses.

Similarly, online education and awareness delivery allows us to more easily spread our vision and activities globally to as many people as possible in a cost-effective manner.

We could also offer our online courses to external customers who are willing to pay for them and the materials we use. This could be an alternative form of income for us, selling our expertise globally.

Slide 3:

Digital marketing

Features:

- User friendly website and mobile applications
- Search Engine Optimisation
- Analytics to tailor marketing messages

Benefits:

- Marketing tailored to the individual
- Reduces costs of traditional direct marketing activities
- Updated instantly
- Attract volunteers/staff

Notes

Marketing is often seen as an activity reserved for commercial organisations, undertaken to secure additional awareness and ultimately, increased sales of its products and services. However, marketing is equally important to a charitable organisation such as the BCO. Digital marketing is more cost effective and should assist in reaching a wider audience for our marketing message.

The first element of e-marketing for us, is an effective and well-designed website, something which we are planning on undertaking next year. This needs to be located easily through effective Search Engine Optimisation (SEO), and ensuring our website remains easy to use, accessible and importantly, easy to find.

The potential development of mobile applications is another source of digital marketing. Apps are convenient and accessible on the go for many people, particularly the younger generation, and could be a beneficial method of marketing.

Application of digital marketing is particularly useful as it allows us to tailor messages to individuals and groups who show an interest in what we do. Again, this is a major positive in creating a strong marketing message to potential donors and customers. It is also a positive way of accessing potential volunteers and attracting interest of potential staff in a cost-efficient way.

3 To: Chief executive officer
From: Senior finance manager
Date: XX/XX/20X1
Confidential: Evaluation of BCO's risk register and risk mitigating activities

Introduction

The following report will consider the BCO's current risk register, as presented in our latest annual report and assess whether the risk mitigating activities are adequate, particularly taking into consideration the current environment and challenges facing the charity sector, as outlined in the recent research report.

BCO's risk register and risk mitigating activities

Risks identified

The current risk register identifies four potential risks for the coming year which are all relevant and important risks facing the BCO at this point in time and all are correctly identified as key risks to our organisation. I will consider the adequacy of the risk mitigating activities of each in turn below.

1. Fund-raising

The risk register identifies that we may not be able to raise the required level of funding to cover our costs. From an analysis of our latest annual report it is clear that the BCO's income is just managing to cover its expenditure and in fact, had we not sold a property in the year, then the BCO would have been in deficit. Therefore, this is a genuine and significant risk for the forthcoming years. As the charity sector has clearly come under scrutiny and much criticism recently, we will face significant challenges in the coming years to increase our income, without undertaking more promotion and awareness programmes, which inevitably will cost money. We will have to balance this drive for increased income with ensuring our activities remain ethical and do not harm our reputation.

Adequacy of risk mitigating activities

Implementing appropriate cost budgeting procedures is clearly an important aspect of managing our expenditure, but it does not actually address how to increase income streams. Therefore, this risk management activity has limited scope to improve our fundraising risk. All it does is manage the costs we incur.

Similarly, benchmarking our financial returns is a relatively reactive approach to mitigating our risks and will not assist us in achieving increased income streams. Stewardship reporting for stakeholders in our annual report is a key aspect of transparency and communication with our stakeholders, but again, it will not directly assist in overcoming the risks of our ability to raise sufficient funds.

Overall, I consider that the chairperson has a valid point in regard to whether our risk mitigating activities relating to fund raising are adequate and that he is not over-reacting. Our current risk mitigating activities are only likely to give us increased information on potential reasons of our fund-raising levels and costs and not how to address/ improve them.

2. Loss of key staff and employment issues

This is a significant risk to the BCO, as our staff are a key asset in the delivery of our animal protection activities. We invest significant sums in training staff and it could be a huge financial and potentially reputational loss when staff leave. If we lose that expertise, which we have to then either buy in or re-train we run the risk of not attaining the high standards of operation we set for ourselves. Therefore, this is a key and therefore justifiable risk to focus on as an organisation.

Adequacy of risk mitigating activities

Currently, our risk management activities include succession planning, agreement of notice periods and review of recruitment processes and policies. These would seem to be suitable risk management activities to assist in reducing and eliminating some of the risks associated with the loss of staff. Succession planning is a critical aspect of ensuring staff continuity and successful handover of responsibilities when staff leave the organisation. This should ensure that we have a definite plan in place to ensure that remaining staff are ready and prepared to take on new roles and responsibilities when required. Also, this should assist in motivating remaining staff. Review of recruitment policies and processes is also a critical aspect in ensuring that we employ staff with the correct skills and attitudes, therefore hopefully resulting in lower staff turnover. However, a key aspect of mitigation which is not considered is training programmes, which would be an effective way of motivating staff to remain committed to the organisation and thus reduce the levels of staff turnover. This may be a reason why the chairperson believes that our risk mitigating activities are insufficient. Therefore, it is recommended that our risk register should also include activities to improve retention.

Overall, our risks management activities relating to this risk are reasonably sufficient and the chairperson may be over critical of our risk management activities for this risk category. However, we must also include the implementation of appropriate and regular training programmes and skills updates for staff to enhance motivation and therefore improve retention.

3. Competition

Competition in the charity sector is a key risk for the BCO, as evidenced in the recent sector research report, as a result of several external environmental factors. This competition inevitably means that we face a significant risk of reduced income and subsequently, a potential loss of public awareness and profile, should potential donors and supporters choose to support alternative causes. Therefore, the Risk committee is correct to include this within our risk register.

Adequacy of risk mitigating activities

Our current risk register suggests that we should manage this risk using methods such as monitoring of service delivery and monitoring public awareness and profile. I would suggest that the chairperson may be correct in his concerns with risk management of the risk from competition, as these activities are likely to be inadequate to effectively manage such a serious threat to our position. Monitoring of public profile and service delivery are useful starting points to assess our situation in the competitive environment and they may indeed assist us in identifying areas for improvement. However, they are not sufficiently proactive to ensure we do stay ahead of our competitor and therefore the chairperson is correct in his concerns relating to the activities we undertake to mitigate this risk. We should be considering activities such as ensuring and managing key stakeholder awareness and customer/donor generation/retention strategies. Therefore, I believe that the chairperson is not over reacting to the consequences of this risk and is correct in his assessment in the adequacy of our risk management activity.

4. Operating in dangerous locations around the world

Because we operate our animal protection activities across the world it is inevitable that some activities will take place in dangerous locations and therefore this is a significant risk and must be considered as part of our risk register. One issue that is not considered however, which I believe should be, is the potential litigation which may occur as a result of injury or death to any of our staff or volunteers. Therefore, the chairperson is correct in his assessment of the adequacy of our assessment of this risk and is not over reacting to the recent challenges in the sector.

Adequacy of risk mitigating activities

Activities such as monitor and review activities in recognised dangerous locations and procedures to remove staff and volunteers at short notice are key risk management activities but we must also ensure that these are carried out regularly and tested regularly. A close relationship with security and safety services is also a key risk management activity and is evidence of a proactive risk management approach. Therefore, I would in fact agree with the chief executive in this case and conclude that the BCO appears to have adequate risk management activities in this particular risk category.

Other issues to consider and concluding comments

A more general observation to make is that the BCO has a functioning risk committee, chaired by the chairperson and with two other board of trustee members, which meets once per year. In the past this may have been sufficient, at a time when the charity sector was more stable and predictable than the current environment. However, in recent times the environment has changed significantly, and it could be argued that in the light of the current rapidly changing external environment and the increasing threats this causes, the Risk committee should in fact meet more than once per year. This would reassure key stakeholders of our commitment to managing risks effectively. Therefore, in this respect, the chairperson may have a relevant cause for concern in the overall functioning of the Risk committee.

Although the risk register contains four key areas of risk facing the BCO, the chairperson is also correct in challenging the adequacy of this register, in terms of whether it covers all of the risks currently facing the BCO. The recent sector research report makes it quite clear that there are a wide range of threats and challenges currently occurring in the charity sector and many are not addressed in our current risks register. For example, there is a significant risk from the changing demographics and how we reach these in order to stay relevant as a charity. Additionally, our lack of use of technology and the potential threats this brings must be considered as a key risk. Risks such as rising operating costs, possible litigation and continued recession should also be considered.

Therefore, although our risk register has several positive attributes, the risk mitigating activities need to be reviewed and we must also update our risk register to include the current external challenges faced. Therefore, I would disagree in several cases that our risk analysis and our risk mitigation activities are sufficient and the chairperson is justified in his concerns of the adequacy of our risk management activities.

4 FAO: Chief executive officer

Briefing Notes

A recent news report highlighted the apparent weaknesses in some organisations in the charity sector and the potential implications this may have, in terms of poor strategic direction and loss of funding.

(i) Board of trustees' skills and diversity

Currently, our Board of trustees does appear to lack diversity. This is evidenced in the following analysis of a board of trustee members:

1. Five of our six trustees are over the age of 55 and only two are women. A lack of diversity in age range of our trustees could mean that, although vastly experienced in their own areas of expertise, our trustees may lack the knowledge and awareness of the changing world we now operate in, particularly in terms of technology and the changing needs and lifestyles of our customers.

2. In addition, it would seem that only Rani Jeffels, our chairperson has recent commercial experience. Two other trustees do have some commercial background but it is questionable whether this is sufficiently recent to assist in the modern environment we operate in. As discussed in a recent news article, in a modern world where charities face similar commercial pressures to profit making organisation, we need to consider whether the BCO can be run effectively by trustees with such limited commercial background and with a potentially limited understanding of strategic management.
3. Three out of six of our trustees have been members of the board for over 10 years. Again, although vastly experienced and knowledgeable of our operations, there is also an argument that the board of trustees now requires new ideas and that our trustees could be out of touch and unskilled for the modern world in which we operate and the modern charitable environment.

These factors above should be a cause for concern for the BCO – as our trustees do not represent the wide spectrum of the BCO's stakeholders. Our board of trustees is a fundamental aspect of the success or failure of our organisation, as it is its responsibility to set out our strategic direction. If they do not have the up to date skills and mix of experience and diversity to do this successfully then we are at risk of losing our strategic direction.

(ii) Continuing development for management board members

1. Continuing professional development for our management board should assist members to think together from a more strategic perspective and should help to build a strong management team. Often a board has little time in board meetings to get to know each other, as everyone is focussed on the job at hand and on their own areas of responsibility. Taking time out for board development allows board members to interact in a less structured environment, helping to build a more cohesive team.
2. Also, importantly our management board has legal duties to use reasonable care, skill and diligence. Keeping the management board members informed and up to date in their areas of expertise and in general legal and regulatory knowledge ensures that they can effectively discharge this duty. The management board must be conversant with changes in regulation, legislation and the operating environment the BCO operates in if it is to manage its strategic direction effectively.
3. The culture of the BCO will largely be driven by the tone set by our management board, which permeates throughout the organisation. By investing in management board development, we can set out a clear signal to the rest of the BCO that it values continual learning. This will encourage our staff and volunteers to want to continuously learn and develop, creating a learning organisation environment, critical in these challenging competitive times we face.
4. Continuing professional development should help to motivate and retain good board members. They will value an organisation which invests in them, which leads to increased motivation, loyalty and retention helping to contribute positively to the achievement of our strategic objectives.
5. As an organisation we are facing increasing challenges from our environment and we need to be innovative in the ways we operate and raise funds. Continuing professional development will assist management board members to be more innovative in their thinking as, people who have been trained well in how to do their jobs are more likely to be more confident and innovative. This in turn should helpfully assist in offering the BCO greater competitive advantage in the form of both improved processes, and also an increased likelihood of new products or services to meet our ever-changing environmental demands.

- 1 (a) Award 1 mark for each relevant point made in relation to the three specific areas covered.

Award up to a maximum of 4 marks for each requirement section.

Up to a maximum of 12 marks

Key Points

(i) The principal agent relationship of the BCO

- Fiduciary relationship
- Principal responsible for good governance
- Agent tasks assigned by principal
- Management board financially rewarded
- The board of trustees not financially rewarded

(ii) The advantages of a two-tier board structure

- Board of trustees – monitor activities of the management board
- Clear separation of duties
- Maintain trust of stakeholders
- Encourages transparency

(iii) How our mission and objectives are driven by stakeholder needs

- Principals acting on behalf of a wide range of stakeholders
- BCO mission – driven by needs of these stakeholders
- First objective – needs of threatened species and communities
- Second objective – needs of staff/locals
- Third objective – needs of wider communities

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<i>Commercial acumen skills in demonstrating an understanding of the organisational issues relevant to the BCO</i>	<i>The candidate has demonstrated no commercial acumen. The candidate has failed to demonstrate an understanding of how the structure and relationships within the BCO are driven by its organisational context and its objectives. The answer was purely theoretical.</i>	<i>The candidate has demonstrated limited commercial acumen. Some commercial awareness was demonstrated in understanding of the BCO's organisational context and activities as a charity, but the candidate has failed to consider a number of the most relevant factors.</i>	<i>The candidate has demonstrated good commercial acumen. Most of the discussion demonstrated good commercial awareness in recognising how the BCO's objectives and organisational context, impact on its activities and management structure. The candidate covered a good range of relevant commercially sound points.</i>	<i>The candidate has demonstrated excellent commercial acumen. The answer demonstrated a very high level of judgement and commercial awareness of how BCO's objectives and the impact on the BCO's board structure and activities of its organisational context. The candidate's answer was very well applied.</i>
Briefing Note			<i>The format of the briefing notes is appropriate and suitable for presentation to the chief finance officer.</i>	<i>The format of the briefing notes is appropriate and suitable for presentation to the chief finance officer.</i>
	0	0.5	1	2

- (b) Up to 2 marks for each relevant point related to the financial and non-financial performance of the BCO, (1 mark for identification of a relevant issue – 1 additional mark for clearly discussing the reasons for and/or implications of each relevant issue).

1 mark for each relevant calculation up to a maximum of 4 (no marks for merely repeating numbers already presented in the exhibit).

Up to a maximum of 13 marks

Key points

Financial

- Charitable activities income – driven by increased admission prices
- Visitor numbers down – concern
- Increase income from increased entry price
- If visitors drop – lose income from shop and café
- Income from shop and café increased – positive
- Corporate membership grown significantly – but small proportion of income
- Individual membership grew slightly – positive
- Income from education and training programmes decreased – impact on SO's
- Fewer external training programmes – does not meet SO's
- Donations, grants and legacies reduced – primary sources of income
- Reduced reliance on this income source – positive
- Animal support and welfare costs increased – cost control
- Inefficient cost management procedures
- Costs of commercial operations reduced – possible efficiently

Non-financial performance (KPIs)

- Staff employed decrease – impact on delivery of programmes
- Attracted more volunteers – but not use volunteers to replace skills and expertise
- Are skilled animal welfare staff being replaced by volunteers?
- Visitor number down – but each visitor spent more
- Training days per staff lower – impact on programme delivery
- External training programmes reduced – impact on SO's
- Re-wilding programmes successful – ultimate objective

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<i>Analysis skills in considering the information relating to the BCO's financial and non-financial performance.</i>	<i>The candidate has demonstrated poor or no analysis skills.</i> <i>The candidate has merely restated the information presented in the exhibit, with no consideration of the implications of this information to the BCO.</i>	<i>The candidate has demonstrated limited analysis skills.</i> <i>Some of the answer demonstrated some analytical skills but there was insufficient analysis and understanding of the relevance and impact of the key aspects of the results.</i>	<i>The candidate has demonstrated good analysis skills.</i> <i>Most of the answer was based on evidence identified from the scenario information and the candidate has made a reasonable attempt to analyse a range of key financial and non-financial issues and demonstrated reasoning and understanding.</i>	<i>The candidate demonstrated excellent analysis skills.</i> <i>All of the candidate's analysis is based on evidence identified from the scenario and there is a clear and logical analysis of the most relevant financial and non-financial factors and has presented clear and logical reasoning.</i>
Briefing Note			<i>The candidate has presented the answer in a briefing note format and most of the analysis is adequate for the intended audience.</i>	<i>The candidate has presented the answer in a briefing note format and the analysis is highly relevant for the intended audience.</i>
	0	1	2	3

- 2 (a)** 1 mark for each relevant point made (do not penalise candidates if they have not used a PESTEL approach to structure their answer).

If PESTEL is used then award a maximum of 4 marks for each category.

Up to a maximum of 15 marks

Political environment impact

- Governments financially overstretched
- Increases in personal and business taxation rates
- Impact on wider population and business community
- Strategic objectives require significant financial resources

Economic environment impact

- Donations and legacies decreasing – global recession impact
- Concern for ability to achieve strategic objectives
- Economic changes globally impacting demand charities like BCO
- Strategic objectives threatened if revenues decrease
- Serious harm to our reputation and ultimately in our ability to survive

Social environment impact

- 'Donor fatigue' – over exposed to charitable requests
- Society under pressure
- Severe risk to strategic objectives
- Engage younger generation
- Austerity – less prone to donate

Technological environment impact

- Prospective positive and negative influence
- Internet allows globally reach
- Positive impact on ability to generate donations
- Opportunity to build better relationships with donors
- Use online marketing, electronically delivered training and online donations
- Failure to innovate – major consequences

Ecological environment impact

- Key external driver
- Many similar charities seen demand increase dramatically
- However – struggle to maintain stable funding levels for such organisations
- Threat to survival

Legal environmental impact

- Local authorities banned street donations
- Impacts badly on general reputation/perception of sector
- Need to retain strong legal support
- Cost of regulation (health and safety increasing costs)

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<i>Evaluation skills in objectively appraising the facts, opinions and findings relating to the BCO's external environment.</i>	<i>The candidate has failed to demonstrate any evaluation skills. The candidate has not appraised the information presented and has merely re-stated information already presented. The candidate has shown poor professional judgement in failing to appraise the appropriate information in a useful and objective way.</i>	<i>The candidate has demonstrated weak evaluation skills. The candidate has shown limited professional judgement in appraising the information provided but has used an appropriate framework to structure the answer. However, the candidate has not adequately evaluated the information in an objective or useful way.</i>	<i>The candidate has demonstrated good evaluation skills. The candidate has shown good professional judgement in selecting and applying a suitable framework to evaluate the information and has made some reasonable assertions. They have demonstrated a reasonable appraisal of the information presented.</i>	<i>The candidate has demonstrated excellent evaluation skills. The candidate has shown excellent professional judgement in evaluating the most relevant external environmental factors impacting on the strategic objectives. The candidate has made very well justified assertions about the external environment and has demonstrated clear and objective judgement.</i>
Report Format			<i>The answer is presented in a suitable report format.</i>	<i>The answer is presented in a suitable report format.</i>
	0	1-33	2-66	4

- (b) For each slide, award 1 mark for each relevant and applied point made within the accompanying notes.

Up to a maximum of 5 marks for the notes on each per slide.

Maximum of 15 marks

Key points

Slide 1

Social media

- Build supporters, boost donations, share success stories
- Engage with a younger generation of supporters
- Two-way communication – interactive
- Global reach – cost effective
- Make emotional connections
- Use of images, videos, comments
- Encourages supporter to interact – create online community

Slide 2

Online delivery of training and education

- Strategic objectives – invest in providing training and education
- Costly – time and money without online delivery
- Deliver anywhere in the world
- Use of mobile devices – any time of day or night
- Global access – without physical costs
- Huge cost saving and source of funds
- Allows BCO to share knowledge cost effectively

Slide 3

Digital marketing

- Cost effective – assists in reaching a wider audience
- Need well-designed website
- Requires effective Search Engine Optimisation (SEO) – easy to find
- Technology extended for non-members online donations
- Includes mobile applications, another source of e-marketing
- Apps convenient and accessible
- Tailor messages to individuals and groups
- Access potential volunteers and attracting interest of potential staff

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<i>Communication skills in using compelling and logical arguments to persuade the Board of trustees of the potential of e-business technologies for the BCO.</i>	<i>The candidate demonstrated no or poor communication skills. The candidate has failed to present a logical argument for e-business technologies. The style, tone and presentation of the slides and notes would not be suitable for presentation to the Board of trustees.</i>	<i>The candidate demonstrated some basic communication skills. They have demonstrated some evidence of presenting relevant arguments for e-business technologies but some of it is not clear or insufficient to communicate effectively to the Board of trustees.</i>	<i>The candidate demonstrated good communication skills. They have presented a good range of logical and clear arguments for application of e-business technologies. However, some key points were missing and/or the arguments were not fully developed.</i>	<i>The candidate demonstrated excellent communication skills. They have presented a clear, balanced and logical presentation, giving clear and logical arguments for the application of e-business technologies. The answer is logical, clear and persuasive.</i>
Slide Presentation			<i>The candidate has presented the answer in a suitable presentation slide and note format.</i>	<i>The candidate has presented the answer in a suitable presentation slide and note format.</i>
	0	1-33	2-66	4

3 Up to 2 marks for a discussion of the general issues relating to BCO's risk management activities.

1 mark for each relevant point made relating to the BCO's risk register and the associated risk mitigating activities.

Up to a maximum of 4 marks for each risk category from the risk register discussed.

Up to a total of 15 marks

Key points

General issues

Environment changing significantly – should meet more than twice per year.

Reassure key stakeholders of our commitment to managing risks effectively.

Chairperson may have a relevant cause for concern in functioning of Risk committee.

Risks identified

1. Fund-raising

- Significant risk
- Significant challenges in coming years
- Balance drive for increased income with ethical behaviour

Adequacy of risks mitigating activities

- Budgeting important – but not address need to increase income streams
- Limited scope to reduce fundraising risk
- Benchmarking – reactive approach to risk management
- Not assist in achieving increased income streams
- Stewardship reporting – not directly assist overcoming risks
- Overall, Chairperson has valid point in regard to adequacy of risk management activities

2. Loss of key staff and employment issues

- Significant risk – staff key asset
- Invest significant sums in training staff
- Lose that expertise – risk of not attaining high standards of operation
- Justifiable risk to focus on

Adequacy of risk mitigating activities

- Succession planning – ensuring staff continuity and handover
- Ensure plan in place so staff prepared to take on new roles
- Motivate remaining staff
- Review recruitment policies – critical in ensuring staff have correct skills
- Risks management activities sufficient and appropriate
- Training and retention not included – significant omission

3. *Competition*

- Key risk – recent sector research report
- Reduced income & loss of public awareness and profile
- Correct to include this in risk register

Adequacy of risk mitigating activities

- Monitoring of service delivery and public awareness – inadequate to manage serious threat
- Useful starting point
- Not sufficiently proactive
- Chairperson correct in concerns relating to the management of this risk

4. *Operating in dangerous locations around the world*

- Significant risk
- Need to include potential litigation – injury or death to staff or volunteers

Adequacy of risk mitigating activities

- Monitor/review activities in dangerous locations/procedures to remove staff – key risk management activities
- Also ensure these tested regularly
- Close relationship with security and safety services – key risk management activity
- Evidence a proactive risk management approach
- Adequate risk management activities in this risk area

Other issues to consider and concluding comments

- Chairperson's concerns justified
- Significant risk from changing demographics
- Lack of use of technology and potential threats this brings considered as key risk

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<i>Scepticism skills in questioning appropriately the opinions expressed by the chairperson and the chief executive officer</i>	<i>The candidate has failed to challenge the opinions raised by the chairperson and the CEO relating to risks in the BCO's register and the adequacy of its current risk management activities. The answer is descriptive and there is no evidence of questioning the opinions in an appropriate way.</i>	<i>The candidate has made a limited attempt at challenging the opinions of the chairperson and the CEO in relation to the risk register and the adequacy of the current risk management activities. There is some evidence of evaluating the risk management activities but this is limited.</i>	<i>The candidate has made a reasonably good attempt at challenging the opinions of the chairperson and the CEO in relation the contents of the risk register and the adequacy of the current risk management activities. There is evidence of a number of challenges made to the comments made in an appropriate way.</i>	<i>The candidate has made an excellent attempt at challenging the opinions of the chairperson and the CEO in relation the contents of the risk register and the adequacy of the current risk management activities. There is excellent evidence of the candidate recognising and challenging most of the relevant issues in BCO's risk report in an appropriate way.</i>
Report Format			<i>The answer is presented in a correct report format.</i>	<i>The answer is presented in a correct report format.</i>
	0	1-33	2-66	4

4 1 mark for each relevant point made and applied to BCO.

Up to a total of 6 marks per section

Up to a maximum of 10 marks

(i) Board of trustees with a sufficient mix of skills and diversity

- Five 55+ & only two women
- May lack knowledge/awareness of changing world
- Particularly in technology and needs and lifestyles of customers
- Only new Chairperson has recent commercial experience
- Two others have commercial background – sufficiently recent?
- Charities facing similar commercial pressures to profit making organisation
- Limited understanding of strategic management
- Three trustees – on board for over 10 years
- Not represent wide spectrum of stakeholders
- Risk of losing strategic direction

(ii) Continuing development for management board members

- Build a strong management team
- Interact to build more cohesive team
- Up to date in areas of expertise and legal and regulatory knowledge
- Culture driven by tone from management board
- Set out a clear signal it values continual learning
- Encourage staff and volunteers
- Creating a learning organisation environment
- Motivate and retain good board members
- Encourages innovative
- Increase confident

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<i>Commercial acumen skills in showing awareness of organisational and wider external factors affecting the work of the BCO's board of trustees and management board.</i>	<i>The candidate has not demonstrated commercial acumen. They have failed to link their discussion of the activities of the board of trustees and the management board to the external environment which affects them. The answer is largely descriptive, with little reference to the needs of the BCO's stakeholders.</i>	<i>The candidate has demonstrated limited commercial acumen. Some attempt has been made to consider relevant skills, diversity and CPD relating to the BCO, but this has not been linked adequately to the needs of the external environment and the BCO's stakeholders.</i>	<i>The candidate has demonstrated good commercial acumen. A reasonable amount of the answer is linked directly to the required skills, diversity and CPD requirements of the BCO, and there has been some attempt to consider the impact and needs of the external environment and the BCO's stakeholders.</i>	<i>The candidate has demonstrated excellent commercial acumen. Most of the answer is linked directly to the required skills, diversity and CPD requirements of the BCO, and the candidate has clearly and correctly considered the impact and needs of the external environment and the BCO's stakeholders.</i>
Briefing Notes			<i>The answer is presented in the correct briefing note format.</i>	<i>The answer is presented in the correct briefing note format.</i>
	0	1	2	3