

CGMA Exam – Examiner’s report

August 2017 exam session

This document should be read in conjunction with the examiner’s suggested answers and marking guidance.

General comments

This exam was based on a pre-seen scenario relating to an electronics company which specialised in developing technology that could be used to assist motorists. The company aims to be a leading innovator in its industry. The scenario was made available in advance of the exam and a number of unseen variant exams were set, each offering additional scenario-based information and each having three sections to be completed. Each section was split into two or three specific requirements. The pre-seen material was linked to ongoing developments in the motor industry that have been discussed extensively in the media. Many drivers have satnav systems in their cars or on their smartphones so the concepts should have been understandable.

Candidate performance

Overall performance was in line with expectations and there were no major problems with examination technique. This is consistent with expectations for the Strategic Level. Answers were generally well structured and demonstrated a commercial awareness. There were a number of excellent scripts this sitting and also some which were poor. The main issue as usual was candidates not answering the question and having poor understanding of more technical areas of the syllabus. Answers could often be improved considerably by applying the answer directly to the case study and making answers less generic.

Looking ahead to future examinations

Candidates should read the pre-seen material carefully and come into the examination understanding the industry and the company. It may help to read more widely using the various online resources that are available, although such research should be aimed at developing familiarity with the pre-seen material rather than attempting to predict requirements.

Candidates should aim to manage their time effectively. Each section will have more than one requirement and each requirement should receive the same time and attention.

It is important to be conversant with each of the three subjects making up the Strategic Level because the case study will examine all three.

Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus learning outcome:
Section 1	Advise on strategic options	Business skills	E3 B1b - recommend strategic options
	Advise on impact on share price	Leadership skills	F3 C2a - calculate the value of a whole entity....
Section 2	Evaluate currency risks	Technical skills	P3 D1a - evaluate financial risks facing an organisation
	Advise on social reporting	People skills	F3 A1c - advise on the use of sustainability and integrated reporting...
Section 3	Evaluate usefulness of Big Data	Technical skills	E3 E2b - evaluate the strategic and competitive impact of information systems....
	Recommend approach to maximising revenue	Business skills	E3 E2b - evaluate the strategic and competitive impact of information systems....
	Evaluate ethical issues	People skills	P3 B2a - evaluate the risks of unethical behaviour
	Discuss role of non-executive directors	Leadership skills	P3 B3a - evaluate the risks associated with poor governance structures

Comments on performance

Section 1

Whilst most candidates grasped the inevitability of this development and therefore seized the opportunity to take advantage of the additional resources offered, few were able to pick out and describe the potential conflict over future IPR ownership or indeed lay out any groundwork to protect AutoAuto's rights to develop a related product. This led to more candidates more readily accepting that the co-development would lead to a significant limitation of potential futures with very few able to promote more options.

As regards the second requirement on the effects on share price, most candidates were quite vague on this, centring their arguments on the efficiency of the market reacting to any news and press releases. Better candidates highlighted that both these developments are long term 2 year plus investments with zero cash inflows and that the investment by GM could only enhance that situation with positive effect on share price.

Section 2

Section 2, centred around currency risks and the quantification thereof, led to considerable confusion amongst the candidates mostly, I suspect, because they do not appear to have a good grasp of economic risk but did have some knowledge of handling such risk via internal or external hedging. This was not what was asked! Similarly many candidates gave lots of generic risks few of which were directly currency related. Where knowledge was present, candidates were able to give a very clear view of various underlying causes for the unpredictability of currency forecasting.

The second requirement relating to corporate social responsibility and the threat to jobs for drivers of taxis and vans was, on the whole, well answered. Candidates drew from the pre-seen material and focused on advantages of the new technology; safety, economy, efficiency, although there are some who benefit less. Modernisation nearly always leads to changes in employment profiles. The importance to the shareholders was that this change is coming and AutoAuto should benefit from being at the forefront whilst also trying to show some empathy towards those adversely affected.

Section 3

The final section was split into four requirements starting with exploring and making use of big data. This divided the candidates into those who learn and those who understand. The former giving definitions and scant application of process, usually poorly understood. However there is a growing volume of knowledge in this area and candidates are showing an ability to interpret and apply different aspects of the capability of having instant access to sifted and interpreted data from depersonalised sources.

Again split on the basis of those who can deliver more than definitions candidates were able to proffer value to several disparate user groups, from vehicle efficiencies advising manufacturers, to venue popularity in differing weather conditions enabling placement of taxis.

This was continued into the third part of the question on the ethics of personal data collection, where good candidates immediately addressed the need to avoid any aspect of unauthorised personalised data whatsoever. The ethical aspects were quite well understood by most candidates recognising the dangers of personal data and the need to redact before storage to avoid data protection issues.

The last part was again quite mixed in response; poor candidates related to numbers of non-executive directors and board structure with some semblance of roles to be played. The better candidates immediately seized on the correct board functions of action and overseeing, encouraging the full Board to develop the strategy with the executive members having the primary role of decision making.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus learning outcome:
Section 1	Evaluate proposal to switch software	Business skills	E3 E1a - evaluate the information systems required to sustain the organisation
	Advise on currency risk	Technical skills	P3 D2b - evaluate appropriate methods for the identification and management of financial risks....
Section 2	Advise on impact on organisational culture	People skills	E3 C1a - evaluate the key impacts of organisational change on organisations
	Discuss implication of announcement for share price	Leadership skills	F3 C2a - calculate the value of a whole entity....
Section 3	Evaluate problem associated with loan covenant	Technical skills	F3 A2a - evaluate the interrelationship between investment, financing and dividend decisions for an incorporated entity
	Evaluate collateral for new loan	Business skills	F3 A2a - evaluate the interrelationship between investment, financing and dividend decisions for an incorporated entity
	Recommend internal audit investigation	People skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations
	Evaluate suggestion for board restructuring	Leadership skills	P3 B3a - evaluate the risks associated with poor governance structures

Comments on performance

Section 1

Section 1 required candidates to consider the factors involved in the decision to switch to an alternative CAD package, called Lokwurk. Candidates were also required to consider how AutoAuto should protect itself against currency movements, should they decide to purchase the Lokwurk CAD package, as it would have to be purchased from an overseas software supplier.

Factors to consider in switching to Lokwurk

This part of the section was answered well. Many candidates provided a wide range of relevant and well discussed factors, including conversion problems, customer reaction, impact on suppliers, reaction of AutoAuto's engineers and training requirements. Most candidates presented a good range of discussion points and in most cases, these were well applied to AutoAuto.

Protection against currency movements

Candidates performed reasonably well on this part of section 1. Most candidates considered a range of relevant mechanisms to protect AutoAuto from fluctuating currency valuation, both internal and external. However, some answers were rather theoretical and not adequately applied to focusing more directly upon the mechanisms most appropriate to AutoAuto. Candidates should in future not just 'brain dump' ideas, but should focus answers upon the most relevant points. In addition, candidates were asked to consider the cost effectiveness of each mechanism considered, which some candidates failed to address at all. Again, candidates are advised to make sure that they read each requirement carefully and make sure that they address all aspects.

Section 2

Section 2 required candidates to consider a letter from the developers of the Lokwurk CAD software highlighting the unauthorised use of the software by a small team of AutoAuto's engineers, and demanding compensation and a public apology from AutoAuto. The requirements focused on firstly, the potential cultural problems which may exist in AutoAuto which may have been a factor in this illegal use of software and secondly, the impact that a public apology would have on AutoAuto's share price.

Cultural issues

This part of the question was not answered well by most candidates. This is because many merely approached the answer from the perspective of CIMA's ethical code, which was not what was asked for. The question clearly required a far more rounded discussion on the culture of AutoAuto, which obviously includes ethical behaviour and standards, but is much wider than just this. Many candidates recognised the ethical code breaches but failed to identify the weakness in the culture of the organisation which were allowing these breaches to occur.

However, some candidates did use the cultural web to structure their answers, which was useful and also several candidates recognised the need for culture to be set by the 'tone from the top'.

Impact of a public apology on the share price

This part of the section was answered reasonably well by most candidates. Most answers demonstrated a sound understanding of the efficient market hypothesis and most answers presented reasonable discussions of the potential reasons why the share price of AutoAuto would be impacted (either negatively or positively). However, very few answers considered that the markets may be concerned about the governance implications of an admission of wrongdoing such as this and therefore, the weaknesses that must exist in the company's wider internal control systems. Shareholder confidence would be reduced by such evidence. Weaker answers were those which were largely theoretical and not sufficiently applied to AutoAuto.

Section 3

The first two parts of this section related to the requirements to borrow \$10 million in order to purchase the new Lokwurk CAD software package. Candidates were asked to firstly, consider the difficulties of getting the lenders to relax the current debt covenants and secondly, whether it would be difficult to raise a loan secured against the computer hardware and software.

The next two parts of section 3 focused on the issues relating to the recent software piracy. Candidates were asked to firstly, draw up a plan to investigate the software compliance of the company's PC's and secondly, to consider a proposal to include a new Director of Information Systems on the Board of Directors.

Relaxing debt covenants

This requirement was answered well by candidates. Most candidates presented a range of arguments including the limited scope for offering more debt and the risks associated with IT projects. Many candidates also correctly argued in favour of relaxing the debt covenants based on the current gearing and the recent reduction in its debt levels. Overall, candidates provided a good range of sound and well-argued discussion points to this requirement.

Use of hardware and software as collateral

This second part of the section was answered well by most candidates. Many candidates recognised the difficulties of using hardware and software as collateral. Most recognised the limited value of second hand hardware and also the lack of transfer value of AutoAuto's software. Overall, answers to this part of the section were sound and well applied.

Internal audit PC investigation plan

This part of the section was not answered well by most candidates. Answers were often very generic and presented in note or list format. Some candidates merely listed a standard audit plan, with little or no reference to the specifics of AutoAuto's PC's and software requirements. Candidates must make sure that all answers are applied directly to the question asked.

Director of Information Systems

This part of the section was answered reasonably well. Many answers were well balanced, considering both the positive and negative aspects of introducing an Information Systems Director onto the Board of Directors. Most recognised the positive impact of a greater strategic focus for the business on information systems and many also considered the potential negative consequences of an over focus on information systems. The main weakness of answers to this part of the section was that some answers were rather thin and not directly applied to AutoAuto.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus learning outcome:
Section 1	Recommend response to adverse publicity	People skills	E3 A2a – evaluate ethical issues and their resolution....
	Evaluate suggestion that a board member should resign	Leadership skills	P3 B3a – evaluate the risks associated with poor governance structures
Section 2	Evaluate strategic value of entity’s skills and competencies	Business skills	E3 B1a - evaluate the processes of strategic analysis and strategic options generation
	Evaluate relevance of share price movement	Technical skills	F3 C2a - calculate the value of a whole entity....
Section 3	Advise on currency risks associated with acquisition	Technical skills	P3 D1a - evaluate financial risks facing an organisation
	Advise on currency risks associated with ongoing operations	Business skills	P3 D1a - evaluate financial risks facing an organisation
	Advise on stewardship of human capital	People skills	F3 A1a - advise on the overall strategic financial and non-financial objectives....
	Recommend disclosure in corporate social report	Leadership skills	F3 A1c - advise on the use of sustainability and integrated reporting....

Comments on performance

Section 1

Candidates generally focused on the strategy for managing the public relations problems arising from the reports. There was little or no mention of the fact that the company could justify much of its actions on the grounds that it had been misled by third parties as to the manufacture of these products. Having said that, many candidates offered clear and practical strategies.

Answers to the second requirement were more varied. The focus often entirely on the immediate implications of a resignation for AutoAuto's public relations. While that was relevant and, indeed, important, there were further governance implications for the company that were often overlooked.

Section 2

Most candidates offered a realistic response to this requirement, with a logical discussion of the move. Candidates had clearly thought about the importance of intellectual property in the process of creating value for this company.

Answers to the second requirement were often a little too focused on the apparent breach of confidence implied by the scenario. Clearly, the market could only have reacted to the briefing if the analysts had either passed on confidential information or if they had sold shares, thereby implying that they had received some negative information. AutoAuto's management would, of course, be concerned about their inability to trust the analysts but there were wider issues such as the fact that the analysts believed that the switch would be harmful to the company.

Section 3

The first requirement was not answered particularly well. The question was essentially asking about economic risks and its impact on AutoAuto's share price. Answers often discussed the merits of the agreement's terms.

The second requirement resulted in slightly more relevant responses. Candidates varied in terms of the approach that they took. For example, acquiring an overseas subsidiary affects translation risks that would not arise from the existing arrangements with third party manufacturers.

The third requirement was generally answered reasonably well. Some candidates ignored the fact that this acquisition follows on from the recent adverse publicity concerning the manufacture of AutoAuto's products and so there may be a need for particular care in the management of external perceptions.

Suggestions for the CSR report in the final requirement were weak. Answers were often brief, which could imply poor time management rather than a lack of understanding.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus learning outcome:
Section 1	Evaluate ethical dilemma	People skills	P3 A3a – evaluate ethical, social and environmental issues....
	Evaluate proposal to monitor academic literature	Business skills	E3 A1a - evaluate the influence and impact of the external environment....
Section 2	Advise on relevance of scenario planning	Leadership skills	E3 B2a - evaluate strategic analysis tools
	Advise on exchange of shares	Technical skills	F3 A1b - evaluate financial objectives of for-profit entities
Section 3	Advise on granting a seat on the board	Leadership skills	P3 B3a - evaluate the risks associated with poor governance structures
	Evaluate currency risks	Technical skills	P3 D1a - evaluate financial risks facing an organisation
	Evaluate impact on shareholder attitude	Business skills	F3 C2a - calculate the value of the whole entity....
	Evaluate synergies	People skills	F3 C3b - evaluate post-transaction issues

Comments on performance

Section 1

The ethical issues were generally well addressed, better than in previous case studies. Many candidates took the CIMA Code as a starting point which helped give a sensible structure to their answers. Candidates identified a range of valid ethical points and marks in this section were good. Many candidates appeared to spend a disproportionate amount of their time on this part of the task and produced scant responses to the second part.

In the second part, many answers recognised that the research could be very valuable to AutoAuto but that reading all papers would be difficult and success hard to predict. Marks in this section were generally lower as answers were shorter and less detailed than the work presented on ethical issues.

Section 2

Better candidates explained the advantages of scenario planning, and also its drawbacks, using the three options being considered to illustrate their points. However, many candidates completely ignored the requirement to evaluate scenario planning and just presented pros and cons of each option, often ending with a recommendation as to which should be selected. Some used the SFA model for their discussion. Although candidates were given credit for their work, many would have scored higher marks if they had directly answered the question presented to them.

The second part of this section asked the candidate to evaluate the potential advantages of agreeing an exchange of shares contingent on future performance to acquire Lidartech. This requirement was better answered, with many candidates correctly identifying that this would reduce the risk to AutoAuto and incentivise Dr Fraser, but that AutoAuto shareholders would face dilution of their shareholdings.

Section 3

Many candidates provided a good discussion of the advisability of offering Dr Fraser a board seat, considering not just his qualifications and suitability but also the overall balance of the board and numbers of executive and non-executive directors.

Some discussed currency issues well, making good use of the news article on interest rates to tailor their discussion to the specific situation. However, there were many answers which were very generic, giving text book descriptions of transaction translation and economic risk and hedging, without reference to the case study material.

Concerns of the shareholders, and the potential for synergies not to be achieved, were generally well answered, there were some excellent answers which showed good commercial awareness of the shareholders likely concerns and the difficulty of achieving synergies.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus learning outcome:
Section 1	Recommend approach to managing product portfolio	Business skills	E3 B2b - recommend how to manage the product portfolio....
	Advise on prevention of dysfunctional behaviour	People skills	P3 E1b – evaluate conflicts that may arise from capital investment decisions
Section 2	Advise on valuation of IP	Technical skills	F3 C2a - calculate the value of a whole entity....
	Evaluate board composition	Leadership skills	P3 B3a - evaluate the risks associated with poor governance structures
Section 3	Evaluate stakeholder interests	People skills	E3 A1d - recommend how to build and manage strategic relationships with stakeholders
	Recommend approach to stakeholder management	Leadership skills	E3 A1d - recommend how to build and manage strategic relationships with stakeholders
	Recommend financing strategy	Business skills	F3 B1a - evaluate the impact of changes in capital structure....
	Evaluate share repurchase	Technical skills	F3 B2a - evaluate alternatives to cash dividends....

Comments on performance

Section 1

Product development

Many answers were generic and discussed a variety of 2x2 models and missed the point. The nature of AutoAuto's business model is that the company does not develop a large number of wholly new products that have a defined lifecycle. Rather, it offers a narrow range of products that are updated and evolve in line with the needs of its B2B customers. Candidates should have thought about AutoAuto's strategy and business model here and many had not.

Dysfunctional behaviour

This project has clearly caught the imagination of the project team (and probably the founders). It is, however, unacceptable for managers in a quoted company to pursue their interests without regard to the cost. Good answers explained how we might ensure that this project is kept under constant scrutiny. There were many very good answers to this section.

Section 2

Valuing IP

There are some generic models for valuing IP, but better answers should have extended the discussion to allow for the fact that AutoAuto is essentially a knowledge-based company. The emphasis on IP in the business model will require a more rigorous approach to valuation. Candidates did not answer this part well. Few had taken into account that they were valuing knowledge.

Founders' role

This part was done surprisingly badly. Governance issues should have been reasonably straightforward for candidates. Candidates should have acknowledged the fact that the founders may occupy a complicated space in the shareholders' understanding of the business. There are clearly governance concerns about the founders' continuing presence on the board, but there may also be worries about the significance of any loss of the engineers whose vision created the company. Few candidates discussed these tensions in their answer.

Section 3

This task is essentially two pairs of linked requirements.

Identify stakeholders

Candidates were free to identify any stakeholders whom they can justify. Having said that, better answers should have focussed on stakeholders whose interests are easier to discuss.

Persuade stakeholders

Again, candidates had a free choice of stakeholder and they should have taken the interests of their selection into account in making this requirement easier to answer.

Surplus funds

Candidates should have linked their discussion to the specific issues arising for AutoAuto. There are good reasons why it would be better to repay the debt. Marks were, of course, awarded for logical arguments that the equity should be repaid, but that is the more difficult argument.

Share repurchase

There are some fairly generic arguments that could have been offered here. Many candidates made arguments that were unfortunately unrealistic. For example, it is unlikely that the market will expect the inflated dividend to be the new baseline for future years.