

CGMA AUGUST 2015 EXAM ANSWERS

Variant 1

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Section 1

Risks

From a business perspective, we should consider the signing of Novak as any other investment. There is a potential upside risk to signing Novak because he might make Glory score more goals and win more matches. Commercially, that could make Glory more attractive to sponsors. We will also remove the risk of Novak being signed by one of our rivals, particularly Walleen, thereby negating the risk that he might be playing against us at some point.

As a business investment, there are significant risks that the signing will yield very little value to Glory. For example, Novak's contract only has value while he is fit to play. He is likely to be targeted by rival teams whenever he has the ball and so he could be injured, thereby rendering our investment worthless. Even a minor injury could cost us the use of this asset for a significant part of the soccer season.

Signing Novak effectively gives the team manager a real option to change the style of play. As with any option, there is a possibility that it may not be exercised and so may 'lapse' worthless. For example, the manager may decide that the team as a whole is more effective when Novak does not play

We risk the loss of other players because of this signing. For example, Bryan Holt may view the signing of a new lead striker as signalling the end of his place in the team and so he may decide to leave at the end of his contract. Other players may feel that Novak's signing undermines their perceived value and so they may also decide to leave.

Novak's value to Glory depends in part on his morale, which may be impaired by the move. He may find it difficult to settle in Veldoun, or his family may be unhappy here. He may find it difficult to be motivated to play for a less prestigious club in a lower league. There will be very little that we can do if he cannot or will not play to the best of his ability, other than releasing him from his contract.

Financial impacts

A financial analysis will be complicated because we are likely to increase both costs and revenues and so it will be difficult to determine whether this will generate a net inflow or outflow of cash.

Signing Novak will increase our wages bill, if only because he will expect to be well paid. We may find it difficult to offset that by letting existing players go, because no single player will be as well paid as he is and we will have insufficient players if we sell or release several team members. Furthermore, in HR terms, there is limited flexibility in terms of replacing players and so engaging Novak does not necessarily make anyone else redundant.

From a commercial point of view, we are effectively selling entertainment. If Novak's signing is a success in football terms then we may make it less attractive to watch us play. We could lose revenues from ticket sales if supporters become bored with the knowledge that we always win. We are fairly evenly matched with Walleen and that injects some excitement into the sport. That could be lost if we can consistently beat Walleen every time we play against them thanks to Novak.

The converse may also be true. A major signing could encourage supporters to attend matches in order to see Novak play. Unfortunately, that could be a short-lived phenomenon, with the novelty factor quickly wearing off. We could address that problem by timing the signing to coincide with sales of season tickets in the hope that more supporters buy season tickets with the intention of watching Novak.

We already have a very successful club in terms of soccer and so enhancing the squad by taking on an expensive and prestigious player may add very little. There is little commercial advantage in being at the top of the league rather than competing to be in first or second place. We probably win as much television coverage as we can ever hope to get and so there will be no additional revenues from further improving our performance.

Other teams may respond by signing similar players in order to compete with us more effectively. Walleen may respond with two or three similar signings, which could force us to respond with further signings of our own. Our wages bill could be increased, simply to remain where we are.

Signing better known foreign players could open up new media opportunities for the Veldoun Soccer League. European soccer fans may be keen to watch matches from other countries in order to follow favourite players. It may be possible for Orbit to sell broadcast rights internationally and pass some of the additional revenues on to clubs.

Section 2

Impact on share price

From a financial point of view, the signing will send out a mixed message to the stock market. The signing is likely to increase Glory's costs without necessarily generating any additional revenues. It will be difficult for the stock market to determine whether this signing constitutes a positive NPV project and so it may have very little effect on the share price.

The nature of the entity and its shareholders may mean that the financial issues are not the only ones that affect the share price.

Kartar Sanghera holds just over a third of the shares. His motivation for owning shares appears to be a personal interest in the club and its football performance. It is unlikely that he could buy additional shares, but the signing could encourage him to retain his present investment. If Kartar sells any shares then that will be a highly negative signal to the stock market and the share price will plummet.

Many of the other shareholders are fans of the club. It could be argued that their desire to hold shares is motivated by their interest in the club rather than a desire to make money from their investment. Making the club more interesting from a soccer point of view could stimulate demand from those investors, thereby pushing up the share price.

Key message

The principal focus should be on the soccer issues. Glory is investing in a star player in order to reward the club's fans for their continuing support. The message should indicate how the signing will change Glory's style of play. It should also be clear how this will affect the positions of existing players, especially Bryan Holt.

The club's communications should aim to present the signing as a reward to fans in order to create a positive impression. The club's commercial success depends upon the fans' support and they will be more inclined to watch televised games and to buy tickets if they feel that Glory is keen to play attractive soccer for their sake.

The positive focus on playing is also a means of pre-empting any negative response from the press, which may wish to focus on Novak's need to promote other commercial activities. The press may also wish to stoke controversy over the signing of another striker when the club captain is presently in that role.

Team performance

Novak's signing is likely to demotivate the team to some extent. Firstly, it would make little sense to sign Novak unless there was a strong likelihood of him playing in most matches. That immediately displaces a player from the first team side. That player may then be in the squad of 18 first team players, which could push another player into the reserve team. The overall effect will be to create a sense of insecurity because further signings could lead to further demotions from first team soccer.

The fact that Novak is a high-profile player may also lead to other players being displaced from the newspapers and television news. If sports reporters are keen to fill their reports with stories about Novak then the remaining players may start to feel jealous and that could have an impact on their motivation when training or even playing. Players may also feel that Novak is being rewarded for his extra-curricular activities, which will be a distraction from playing.

On the plus side, the players may also feel that a player of Novak's calibre will enable them to play consistently well. His presence could inspire them to play better in order to match his contribution to the club's sporting success.

Ethical implications

This is a rather complicated ethical dilemma because the stakeholders who are being misled are the players, whose contracts are freely negotiated with the support of professional agents. Kartar is not suggesting that the other players be misled into accepting more than they are entitled to receive. Effectively, he is aiming to maximise shareholder wealth by preventing the players from obtaining information that might demotivate them or encourage them to renegotiate their contracts.

Kartar's proposal could be quite harmful to Novak because there is a risk that the cover story will filter back to the press and that Novak's career will be affected by rumours about his ill health. Novak will be aware of that risk if he agrees to the deception and his agent will also be in a position to advise him. Glory will also be paying a financial compensation for agreeing to accept that risk.

Despite these arguments, it could be argued that the ethical guidance contained in documents such as the CIMA Code of Ethics still apply. Telling lies will always imply a lack of integrity, regardless of the circumstances and potential justification. In the same vein, this deception is likely to come to light in the event that the European press show Novak attending business events rather than hospital. Thus, Glory's reputation for professional behaviour could be undermined.

Section 3

From: Finance Manager
To: Manjiri Kamat, Director of Finance
Re: Television rights

Hi Manjiri,

International sales

Our starting point is to analyse the global market for broadcast soccer. We can make a start at identifying potential outlets by determining which countries broadcast overseas matches in addition to their own domestic games. If there is a viewing audience that is willing to watch soccer from other countries then it may be easier to break in and sell broadcasting rights to Veldoun.

We also need to establish what factors will make it attractive to take up foreign broadcasting rights. If the demand is for soccer from well-established leagues that offer very high quality competition then we may find it difficult to break in. If audiences simply wish to watch a different style of play then we may have more chance.

We should also consider the implications of us having signed Novak. It may be that fans from his former country will be interested to watch him play in a different league. That should be researched carefully, particularly because his career is on the decline as he gets older and so he may not have the same capacity to attract viewers as he did when he was at the height of his game. We may consider conducting our own market research before approaching television companies, in the hope that a positive result would enhance our chances of success.

There may be broadcasters who would be willing to promote soccer from Veldoun because we can offer a different style of soccer. We may also be willing to offer rights at a relatively attractive price. There are many digital, cable and satellite broadcasters who specialise in sport and they may be interested in an inexpensive source of additional material. We should contact such companies with a view to gauging interest.

Orbit Communications

Any benefit to the clubs is likely to lead to a loss by Orbit and so it is unlikely that Orbit would be willing to release them. The clubs would be free to negotiate a tariff for broadcasts that is likely to be more costly than the present arrangement.

The clubs could have the ability to apply a certain amount of pressure on Orbit. For example, they may instruct their players and managers not to answer questions when being interviewed by Orbit's journalists, thereby removing an interesting dimension from the sport's media coverage. Alternatively, the clubs could disrupt live broadcasts by delaying the start of matches so that matches do not fit into scheduled broadcast slots. Such actions could persuade Orbit to release the clubs.

The proposal could, however, benefit Orbit in other ways. At present, Orbit is committed to a contract that effectively forces it to broadcast matches in return for an agreed fee. Under Kartar's proposal, Orbit would have to bid against other networks for the right to broadcast matches, but if the other networks were unwilling to bid then Orbit would be able to negotiate a lower rate than it currently pays. The clubs would be forced to accept or be left without any broadcasting revenues.

Manage performance

At the highest level, it would probably be best to have a relatively small management team that has a specific remit. The alternative would be a committee structure or board that included representation from every club, but that is likely to prove unwieldy. The company should have a degree of autonomy for the same reason. Clubs should be kept informed of progress on the basis that they are shareholders, and should receive regular but infrequent reports, perhaps annually at the conclusion of every season.

The company should be evaluated on the number of matches broadcast in Veldoun and the revenues raised from such broadcasts. There should be budgets in place to ensure that the company has a realistic target that will preserve the revenues from domestic broadcasts.

There should be regular reports on the number of overseas broadcasters who take the League's broadcasts. The number of matches broadcast overseas and other products, such as edited highlights, should be reported.