

**Management level integrated case study – Examiner’s report****May 2015 exam session**

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

**General comments**

This paper was based on a pre-seen scenario which described a company in the shipping industry. The scenario was made available in advance of the exam and five variant papers were set, each presenting additional scenario-based information and setting four tasks to be completed. Each task was split into two or three specific elements.

Overall, the standard of answer presented was significantly higher than in the March 2015 exam session, although there were still a number of very poor or incomplete attempts. As with the March case study, the strongest answers were properly applied to the scenario.

There were also short answers to the case study and some candidates did not seem to know much about the industry or the company. Given that the pre-seen material had been available for several weeks prior to the exam, this was disappointing.

Some candidates demonstrated an alarmingly poor understanding of several syllabus areas, including material that is clearly ‘core’.

**Variant 1**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	discuss running costs of new ships	Technical skills	P2 (C1) – evaluate information to support project appraisal.
	analyse market environment and strategy	Business/People skills	E2 (A2) – analyse the relationship between different aspects of the global business environment.
<b>Task 2</b>	advise on challenges associated with project management	Business skills	E2 (D2) – discuss the concepts involved in managing projects.
	advise on issues associated with managing a key business relationship	Technical/People skills	P2 (A1) – evaluate techniques for analysing and managing costs for competitive advantage.
<b>Task 3</b>	advise on depreciation estimates	Technical skills	F2 (B1) – produce consolidated primary financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner.
	advise on ethical implications of communication with shareholders	Business/Leadership skills	P2 (D2) – discuss management’s responsibilities with regard to risk.
<b>Task 4</b>	advise on negotiation strategy	People skills	E2 (C2) – discuss management tools and techniques in managing organisational relationships.
	advise on change management issues	Leadership skills	P2 (A1) – evaluate techniques for analysing and managing costs for competitive advantage.

**Comments on performance****Task 1**

The first (and consequently the second) element of this task required a response in terms of unit cost per TEU, yet the majority of candidates ignored this point totally, with very infrequent mention made of economies of scale. Most answers discussed costs in terms of ship size only, stating that a bigger ship would incur more costs in terms of insurance, oil, crew, etc. This analysis gave them little on which to base the company's role in the market environment, for example cost leadership in the second element of the task. Furthermore, the difficulties associated with operating such large ships in terms of market over-capacity and inadequate world infrastructure were rarely appreciated.

**Task 2**

The first element of this task required candidates to demonstrate their project management knowledge. Many did this theoretically and did not relate their knowledge to the context. The challenge of managing a project on such a large scale, in such a short time and involving complicated production design changes and diversified production facilities, is immense, and most candidates simply failed to appreciate this. With regard to the second element of the task, the competitive effects of employing two shipyards linked to the forthcoming options were generally ignored in favour of language and distance issues.

**Task 3**

The stronger candidates identified the problems of useful life in the ships via the lack of precedent, the varied effects of wear and tear due to different maintenance regimes and the timing of obsolescence. The weaker candidates often touched on the lack of precedent but then went on to state all they knew about depreciation – what it is and various allocation methods employed such as straight-line and reducing balance. This was not the task set. Regarding the ethical issues, about half the candidates had some idea of the CIMA ethical guidelines but only the stronger candidates were able to relate them to the task. Most failed to see the dilemma involved in responding to the blog; those who did tended to hold the opinion that the shareholder blog would cause a shareholder/company crisis or that responding to such a blog would not be appropriate, yet were unable to explain why.

**Task 4**

Most candidates were able to produce a reasonable outline of the strategy for negotiation with the union, even if much of it was theoretical, generic and lacking in specific case detail. The stronger candidates advocated sensible appeasement through redundancy packages, revised bonuses etc but too few emphasised that the change would be essential for the survival of the organisation in order to prevent greater difficulties in the future. The second element of the task – change management aspects – was generally ignored. Not a single candidate grasped the significant changes in terms of cost reduction and employee restructuring.

**Variant 2**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	advise on relative efficiencies of two entities	Technical skills	P2 (A1) – evaluate techniques for analysing and managing costs for competitive advantage.
	advise on the merits of a competitor’s business model	Business skills	E2 (A2) – analyse the relationship between different aspects of the global business environment.
<b>Task 2</b>	advise on financial performance and link to low oil prices	Technical/Business skills	F2 (C1) – evaluate the financial performance, financial position and financial adaptability of an incorporated entity.
	advise on the introduction of a balanced scorecard	Technical/Leadership skills	P2 (B2) – discuss issues arising from the use of performance measures and budgets for control.
<b>Task 3</b>	advise on implications of change for AIS	Technical skills	P2 (C2) – discuss pricing strategies and their consequences.
	advise on business relationships associated with new venture	People skills	E2 (C1) – discuss the effectiveness of organisational relationships.
<b>Task 4</b>	advise on promotion of environmental benefits	People skills	P2 (D2) – discuss management’s responsibilities with regard to risk.
	advise on challenges of setting up a team to manage a new venture	Leadership skills	E2 (B1) – discuss the concepts associated with managing through people.

## Comments on performance

### Task 1

Candidates were presented with lists of operating costs for Flote and SeaLode.

There was a considerable variation in the quality of the explanation of the differences in the operating costs, with the weaker candidates simply stating that one company had, for example, higher port costs than the other, without providing any explanation as to why this was the case.

Many candidates chose to not discuss the share price at all in the second part of this task (some comments were made in task 2 instead). It was extremely rare to find a candidate who linked it to the business model.

In terms of strategy, most candidates just stated that Flote should buy tankers and bulk carriers on the basis that SeaLode seemed to be a more successful company. Unfortunately the majority of candidates went no further than that.

### Task 2

Most candidates' answers were well structured here as they used headings for ROCE, operating profit and gearing, which ensured that the financial performance was covered.

Again similarly to task 1, there was a large variation in the quality of the answers. The weaker candidates tended to do little more than re-state the percentages given in the question and stating which company was the better performing.

There was also a large difference in the quality of the discussion on the oil prices. The weaker candidates did no more than state that the reduction in prices would reduce the operating costs/increase profits. The better candidates went on to discuss the impact on global trade, or SeaLode obtaining increased revenues from transporting oil.

The second part of this task was on a topic (the balanced scorecard) that many candidates were familiar with; however much effort was wasted discussing the theory without answering the question that had been set. Some candidates also chose to also discuss the financial quadrant, which was not required.

### Task 3

Many candidates didn't seem to appreciate what was being asked for in the first part of this task. Some candidates thought they needed information to appraise the project, so they discussed how to get cost and revenue information and then appraised the project. Others discussed whether it would be a profitable venture, so they focussed on additional costs that would arise such as training and website development. The most common approach seemed to be to discuss the economic, social, environmental and technical feasibilities of the project. Again, much of this discussion was irrelevant.

Many of the weaker candidates discussed the setting up of joint ventures with the container owners, which would not be feasible, or discussed using subsidiaries and made the arrangement far too complicated.

Candidates rarely discussed the revenue implications. Where it was discussed it was only in terms of it being a new revenue stream. Hardly any candidate discussed the potential impact on current revenue loss from a reduced number of containers (losing existing business).

**Task 4**

Most candidates achieved marks for stating reduced fuel/emissions as an environmental benefit. Weaker candidates then moved into discussions of the benefits that Flote would get from the increased publicity surrounding the new venture; these were not relevant to the requirement so did not add to the answer.

Hardly any candidates seemed to consider the risk of increased environmental damage, probably because they focused too much on the word 'benefits' in the requirement so they just gave that side of the discussion rather than a more complete answer. Similarly, some candidates discussed general benefits of going ahead with the new venture.

The second part of the task was generally well-answered. Low scores were awarded for rote recitation of relevant theory (eg Tuckman or Belbin) instead of genuine discussion of the challenges.

**Variant 3**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	discuss implications of switching to a different regulatory environment	Technical skills	E2 (A2) – analyse the relationship between different aspects of the global business environment.
	advise on downside risks associated with switching	People skills	P2 (D2) – discuss management’s responsibilities with regard to risk.
<b>Task 2</b>	advise on change management process	People skills	E2 (D1) – advise on important elements in the change process.
	advise on strategic change	Leadership skills	P2 (B2) – discuss issues arising from the use of performance measures and budgets for control.
<b>Task 3</b>	advise on managing a key business relationship	Business/Leadership skills	E2 (C1) – discuss the effectiveness of organisational relationships.
	advise on capital investment appraisal	Technical/Business skills	P2 (C1) – evaluate information to support project appraisal.
<b>Task 4</b>	advise on conducting an impairment review	Technical skills	F2 (B1) – produce consolidated primary financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner.
	advise on implications of market environment	Business skills	P2 (D1) – analyse information to assess its impact on long-term decisions.

## Comments on performance

### Task 1

Candidates were asked to consider the financial implications of switching from a highly regulated country with strict maritime laws to an alternative jurisdiction with minimal regulation. The expectation was that candidates would identify the relevant costs and cash flows that would be affected by this change.

The key point that this question was aiming to test was the question of whether all costs are discretionary in the absence of regulation. Arguably, many costs ought to be borne through choice because they prevent even higher costs from arising elsewhere.

Many candidates managed realistic answers to this part and identified savings that would be possible. Other candidates simply took a scattergun approach and listed every cost that they could think of.

In the second part of the task, candidates were required to identify significant risks associated with the re-registration of the ships under a flag of convenience. Again, this part was generally answered well. Better answers tended to take a realistic view of the savings that might be made that would create risks in the process.

### Task 2

The first part of this task required candidates to identify the change management issues arising from the re-registration of the ships. Answers to this part often missed the point of the question and simply summarised Lewin's model. Whilst it may help to structure answers around a formal model that deals with the issues arising in the question, marks will only be awarded for the application of that model to the given scenario, and not for a detailed description of the model itself.

The second part of task 2 continued to explore the implications of the switch to a flag of convenience, asking for recommendations concerning the motivation of crew in the light of this move. The scenario requires a little thought. The present crew members have been employed because they are highly-skilled; the re-registration will permit Flote to employ crew members with less training and fewer qualifications on lower wages.

Many candidates addressed the issues arising in this task in an effective manner.

### Task 3

In this task, Flote was faced with the opportunity to move its maintenance contracts to other suppliers. Flote is a major customer in this field and so it has the potential to exert considerable influence over the suppliers of this service.

Candidates were first expected to balance a number of potentially contradictory facts in addressing this task. Flote has the opportunity to dictate terms to an extent, but that might not necessarily be in the company's best interests.

The second part of the task required candidates to explain how best to replace a component that can be replaced either every one, two or three years. A table of cash flows indicating net present values was provided. The most appropriate way to approach this was to argue for annualised replacement costs under each of the three options.

Very few candidates went beyond the annualised equivalent. Weak candidates lacked knowledge of the concept of annualised equivalents and provided incorrect answers on how to deal with the different figures for each cycle.



Having considered the financial implications of the replacement cycle, candidates were asked to consider the other factors that might apply. This was generally answered well.

#### **Task 4**

Impairment is potentially a significant matter for Flote. Ships are expensive, technology changes, and the industry is in recession. All of these, and more, could create the need for an impairment review.

Candidates were often a little unclear as to what is meant by impairment. The recoverable amount is not entirely the same as the market value.

A number of candidates offered excellent discussions of the problems. These focussed on, for example, the nature of the assets themselves, with changing technology and the lack of a visible secondary market to offer comparable selling prices often being noted. The fact that the ships were likely to be at sea for much of the time was also cited as an issue, although it is debatable whether an impairment review would necessarily require a separate physical inspection.

**Variant 4**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	advise on the application of TQM	Business skills	E2 (A1) – discuss developments in strategic management.
	recommend appropriate reports to underpin a TQM management approach	Technical skills	P2 (A1) – evaluate techniques for analysing and managing costs for competitive advantage.
	Advise on risks of new venture	Technical skills	P2 (D2) – discuss management’s responsibilities with regard to risk.
<b>Task 2</b>	advise of the motivation of employees	Business/Leadership skills	P2 (A1) – evaluate techniques for analysing and managing costs for competitive advantage.
	advise on change management issues	People skills	E2 (D1) – advise on important elements in the change management process.
<b>Task 3</b>	advise on identification of stakeholders and their interests	Technical/Business skills	E2 (C1) – discuss the effectiveness of organisational relationships.
	discuss need to maintain relationship with selected stakeholders	People skills	P2 (D2) – discuss management’s responsibilities with regard to risk.
<b>Task 4</b>	apply the definition of the parent-subsidiary relationship	Technical skills	F2 (B1) – produce consolidated primary financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner.
	discuss the use of estimates in management reports	Leadership skills	P2 (B3) – evaluate issues arising from the division of the organisation into responsibility centres.

## Comments on performance

### Task 1

In this task, candidates were first introduced to the possibility that Flote could apply a total quality management (TQM) approach to this operation and the benefits that doing so might offer.

However, many candidates then began a discussion about whether or not to implement TQM, rather than what it brings to an organisation once implemented across business processes.

Unfortunately this question was poorly answered on the whole. When reports were mentioned there was seldom a frequency attached, let alone continuous online real-time application. Most mentioned financial consequences but few mentioned the non-financial aspects.

The final part of the task required a discussion of the risks to Flote of proceeding with TQM. Most candidates seized on the reputational issues as their main response here but other risks were often wrongly identified. A few discussed the possibilities of further fines and the costs of implementing TQM.

### Task 2

The first part of this task asked how Flote could motivate and inspire its existing employees who were to be assigned to OceanCargo's ships. Many candidates seized on the opportunities to promote Flote employees to supervise OceanCargo crews. There was also broad acceptance of the need to motivate those Flote employees who were to be redeployed on OceanCargo craft with bonuses or extra time off. The stronger candidates saw the need for extensive communication and buying into the task at hand.

The second part of this task asked candidates which change management issues the company would have to consider. Communication was the most frequently-mentioned issue here, primarily around reassurance on immediate futures, leading on occasion to awareness of overall objectives. The stronger candidates went on to discuss promotions, allowing Flote's staff to be part of the selection process for populating their crews.

### Task 3

This task was undoubtedly the area where candidates scored most highly. Most candidates were able to identify all of the main stakeholders and correctly plot their position on a Mendelow matrix. However, some candidates failed to expand on the communications process or differentiate the stakeholder groups sufficiently. The suggested communication strategies for each stakeholder proved to be the weakest part of the task, with candidates giving minimal answers or suggesting single methods of communication across many different groups of stakeholders.

### Task 4

On the whole there were some very good attempts made at this task, which answered the question asked and used information from the pre-seen material.

The first part of this task asked candidates whether or not Flote Minerals would be a subsidiary of Flote, and to comment on any financial reporting implications if it were to be a subsidiary. Most candidates identified the 50% issue for control but many did not go into enough depth to score high marks in this section.

The second part of the task asked candidates to explain the issues that Flote should take into account when determining an appropriate transfer price. There was only very sparse consideration of the ethical issues here, although candidates made good efforts on the transfer pricing issues.

**Variant 5**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	advise on the implications of collaboration on setting KPIs	People/Leadership skills	E2 (C1) – discuss the effectiveness of organisational relationships.
	identify dysfunctional behaviour	Technical/People skills	P2 (B3) – evaluate issues arising from the division of the organisation into responsibility centres.
<b>Task 2</b>	review an investment appraisal	Technical/Business skills	P2 (C1) – evaluate information to support project appraisal.
<b>Task 3</b>	apply the definition of the related party	Technical skills	F2 (B1) – produce consolidated primary financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner.
	advise on market environment	Business skills	P2 (D2) – discuss management’s responsibilities with regard to risk.
<b>Task 4</b>	advise on managing a key business relationship	Leadership skills	E2 (C1) – discuss the effectiveness of organisational relationships.
	advise on management of customer service levels	Technical/people skills	P2 (B2) – discuss issues arising from the use of performance measures and budgets for control.

## Comments on performance

### Task 1

In the first part of this task, candidates were presented with a list of KPIs used and the scenario that Flote takes a collaborative approach to setting KPIs, with the involvement of ships' captains and managers at all levels. Candidates were asked to comment on the advantages and disadvantages of this approach. There were some very strong attempts at this question. Some candidates misinterpreted this question and discussed instead the advantages and disadvantages of using KPIs in general, rather than the collaborative approach to setting them. This restricted the marks they achieved in this section.

The second part of this task (on the problem of dysfunctional responses to KPI targets) was generally less well addressed, with many candidates not demonstrating the level of knowledge required to advise on how this problem could be managed. Many candidates presented very limited answers only explaining that multiple measures should be used.

### Task 2

In this task, candidates were first asked to review an old investment appraisal for a proposal to refit older vessels with more fuel-efficient engines. Candidates were given a financial summary of the NPV calculations and the assumptions underpinning it, and a schedule of predicted oil price predictions. They had the opportunity to question the assumptions used for the original calculations, examine the impact of the new oil price projections and explain the effect of non-financial factors.

Some of the stronger candidates produced very good responses to this requirement.

Non-financial factors were quite well addressed by many candidates who correctly identified significant factors and discussed their impact.

### Task 3

Candidates were given a scenario where it is proposed to buy engines from a company whose managing director is married to one of Flote's non-executive directors, and were asked if this would be a related party transaction. This task produced both very good and very poor responses. There were some excellent answers from candidates who presented reasoned arguments as to whether this was a related party transaction. Unfortunately there were also a number of candidates who decided that ShipDrive would not be a related party, and therefore did not address the disclosure requirements or the reasons for them. Some candidates believed that a related party transaction had no accounting implications.

In the second part of this task, candidates generally did reasonably well at discussing the impact on customers and the wider environment in general terms, but very few explored the timing issues and the fact that both Flote and SeaLode would have vessels out of service.

### Task 4

The decision to refit ships having been taken, candidates were asked next to discuss collaboration and communication with the chosen ship fitters. This was a poorly-answered question, with many candidates making very general comments about communication being important without addressing the specifics, for example how this communication is to be achieved. Very few candidates identified the importance of the contractual agreement between Flote and the fitters.

The final question asked candidates to comment on how the project should be managed to avoid customer service levels being adversely affected. Once again, many answers in this section were too general to score highly. Weaker candidates provided descriptive answers which didn't make reference to the scenario.

### Tips for future candidates

There are a number of key points to take into account when preparing for future management level case study examinations, as follows:

Candidates must make better use of the opportunity to gain familiarity with the pre-seen material. It is not necessary to memorise the material or to become an expert in the industry, but candidates should develop an understanding of the business.

Questions give explicit instructions as to what is required and marks will not be awarded for anything that has not been requested. In particular, essays on the theory underlying the problem at hand are unlikely to score well if the question asks for a response to a particular issue arising from a scenario.

With the time constraints in place candidates can only spend a limited amount of time on each task. Therefore it is essential that candidates focus on making the points that they are most confident of early in their answer before they run out of time.