

**Strategic 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 oil industry. The scenario was made available in advance of the exam and a number of variant papers was set, each offering additional scenario-based information and each setting four tasks to be completed. Each task was split into two or three specific elements.

**Candidate performance**

Performance overall was good and in some cases excellent.

The main problems were candidates failing to answer what was asked and writing everything they knew on the topic being asked about.

Some candidates had made good use of the pre-seen materials and showed understanding of the oil industry which was heartening. Some candidates however, still did not demonstrate much knowledge of the pre-seen material which was surprising; it was as if candidates did not realise it was important.

It was also good to see that most candidates tried to use relevant models and did not produce lists of inappropriate models. In most of the questions it was hoped that candidates would be able to use industry knowledge and knowledge of the company to help formulate answers; there was strong evidence that many candidates had familiarised themselves with the industry which was excellent.

**Looking ahead to future examinations**

Candidates should read the pre-seen material carefully and come into the examination understanding the industry and the company which will be the focus of the exam. This will help candidates formulate good answers that relate to the questions.

Candidates must manage their time well and make sure they do not run out of time on sections they know well.

A good level of knowledge of the three strategic syllabi is necessary in order to do well in the exams. It is not enough to have knowledge of topics, candidates must be able to apply their knowledge to a variety of situations and show they have an in-depth knowledge of the subject matter.

### Variant 1

	Designed to test ability to:	Competency being tested:	Relationship with aims of syllabus:
<b>Section 1</b>	evaluate the entity's strategic direction	Business skills	E3 – evaluate the process of strategy formulation
	advise management on informing the stock market	People skills	F3 – evaluate strategic financial management policy decisions
<b>Section 2</b>	evaluate political risks	Technical skills	P3 – evaluate financial risks facing an organisation
	recommend responses to identified political risks	Technical skills	P3 – evaluate financial risks facing an organisation
	advise on implications of global economy	Business skills	E3 – evaluate the influence of key external factors on an organisation's strategy
	advise on creating and motivating a management team	Leadership skills	E3 – advise on the important aspects of organisational change
<b>Section 3</b>	advise on tax planning	Technical skills	E3 – evaluate the influence of key external factors on an organisation's strategy
	advise on decision making process	People skills	F3 – evaluate strategic financial and non-financial objectives of different types of entities
	evaluate board member's suggestions concerning driving performance	Leadership skills	P3 – evaluate risk management strategies and internal controls
	advise on driving performance	Leadership skills	P3 – evaluate risk management strategies and internal controls

## Comments on performance

### Section 1

#### Strategic perspective

Most candidates gave a reasonable response to this but often in an unstructured manner. The SAF model was frequently cited without much attempt to link it to the formal mission statement.

Most candidates found links through to the mission statement and current year's statements and gained marks by those direct linkages and comments against them.

Disappointingly, many candidates failed to differentiate between exploration and production, although there was also an encouraging awareness that Slide already had capabilities in the production area.

#### Informing the stock market

Most candidates showed a significant lack of direct knowledge in this part. While many talked of the issues that may be relevant, only 25% or so actually thought about formal presentation to the market and of the total probably less than 5% actually engaged with analysts, let alone industry analysts.

Practically all had some discussion on price movement, although moves in either direction were only given marks if supported with arguments. Many recognised the beta coefficient may adversely change and trigger a reduction in share price. Disappointingly many were just going to wait and see what happened after the weakest of preparatory steps; very few realised the need to channel and drive the perception.

Many candidates thought to consult major shareholders before telling the market without realising that the shareholders are, essentially, "the market". In particular, institutional holders have a significant role in setting market prices.

### Section 2

#### Political risks

Good general answers given here highlighting political risks with quite good examples of external reading in this area. There are some spectacular examples from the past 10 years which have been extensively covered and which any Google search on oil exploration risk will quickly uncover.

### **Changes in the global economy**

Disappointing response in this area, many failed to extend much beyond OPEC overproduction. Most talked directly about the current price being better than last year's and linked this to the timing of any well retention policy. 50% or so linked US fracking as a major impact with somewhat less looking at new energy sources and green issues.

### **Management team**

Lots of answers focused on models, with references to "storming and norming", with the difficulty of recruiting new talent being frequently highlighted.

Few candidates talked of extended remote postings, which is the key issue for "Production" managers, nor was there an appreciation of the potential conflict with an exploration led company management structure.

### **Section 3**

#### **Tax matters**

This was generally well answered, with frequent references to recent cases that have dominated the business news in recent years. Many candidates appreciated the ethical implications of fixing transfer prices to move profits to low tax regimes. The reputational issues were well discussed.

Many candidates were aware of dual tax agreements and of the threat of extensive penalties for artificial evasion. Rather fewer commented on commodity pricing being very visible and thus government regulators and tax authorities can easily spot the issues.

#### **Decision making**

Answers varied in quality. There was an almost universal rejection of the all or nothing approach, but answers were disappointingly shallow. Few candidates realised that it might be difficult to sell low margin wells in times of overproduction times and that Slide's ability to manage marginal wells might make it worth retaining such assets, at least until the oil price recovers.

Fortunately, many discussed other aspects apart from maximising shareholder wealth as being relevant: stakeholders, geographical areas, long term employment, stability and maintainability.

**Driving performance**

Answers were poor in this area. Most candidates agreed on the separate division, but with scant arguments as to why, apart from being able to goal them differently. In other words, there was little recognition of the entirely different phase of maturity of the business and the different pressures and support required.

Candidates demonstrated very little appreciation of EVA.

**Variant 2**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Relationship with aims of syllabus:</b>
<b>Section 1</b>	advise on governance issues	People skills	E3 – evaluate the influence of key external factors on an organisation’s strategy
	advise on potential share price movements	Technical skills	F3 – evaluate strategic financial management policy decisions
<b>Section 2</b>	advise on suitability for Slide	Business skills	E3 – evaluate the process of strategy formulation
	advise on strategic interests of Slide and Fouce	Business skills	E3 – evaluate the process of strategy formulation
	advise on strategic risks	Technical	P3 – evaluate risk management strategies and internal controls
	advise on communication with stock market	Leadership skills	E3 – evaluate the influence of key external factors on an organisation’s strategy
<b>Section 3</b>	advise on a suitable mentoring scheme	People skills	E3 – evaluate tools and methods for successfully implementing a change programme
	organise mentoring scheme	Leadership skills	E3 – evaluate tools and methods for successfully implementing a change programme
	advise on business relationship between entities	Business skills	E3 – evaluate the tools and techniques of strategy implementation
	advise on decision making issues	Leadership skills	F3 – evaluate strategic financial and non-financial objectives of different types of entities

## Comments on performance

In general, candidates made a reasonable attempt at application throughout this variant.

### Section 1

#### Governance issues

The first part of section 1 focused upon the implications of Fouce Oil's shareholding on the decision making of Slide's Board. There were some good answers to this question, with a number of candidates recognising the issues concerning the governance implications of Slide having a major shareholder which has two non-executive directors on its Board. Most answers discussed the implications of closer scrutiny that Fouce can undertake through its two Board members. Some very good answers also recognised the positive benefits of these two non-executive directors from Fouce, particularly in the advice and experience they could offer to Slide as highly experienced oil industry experts.

#### Share price

The second part of section 1 asked candidates to consider the implications for the share price of Fouce Oil's interest in Slide. Many candidates answered this part of the question reasonably well, identifying both the potential positive and negative effects on Slide's share price of Fouce's interest. Candidates who performed badly on this question did so largely because they failed to apply their answers to Slide and instead provided generic answers.

Overall, candidates performed reasonably well on this question.

### Section 2

The second section focused upon a range of issues relating to Fouce's proposal to combine their oil exploration activities.

#### Suitability

Many candidates provided a sound attempt at this answer, recognising this as a good opportunity for Slide and at the same time recognising the potential disadvantages to the company. Most candidates did in fact make an attempt at providing both advantages and disadvantages.

### **Strategic interest**

The second part of the section, relating to the potential clash of strategic interests was not answered well by most candidates. Most candidates identified the difference in operations of the two companies but few answers considered the potential differences in strategic interests. Most answers to this part of the section were very thin.

### **Strategic risks**

In relation to the part of the section asking candidates to assess strategic risks, this was reasonably well answered. Most answers attempted to identify the strategic risks faced by both companies. However, some answers did rather go off the point, focusing upon political and economic risks in general rather than specific risks faced by the businesses themselves.

### **Communication with stock market**

The final part of the section, relating to the communication of the arrangement to the stock market was answered well by the majority of candidates. Most candidates recognised the need for effective communication in terms of the synergistic benefits of the arrangement. Overall, candidates performed well on this task.

## **Section 3**

### **Mentoring scheme**

The first element of this section focused upon the advantages and disadvantages of offering a formal coaching and mentoring scheme for Fouce Oil's staff. Most candidates answered this question very well, presenting a wide range of advantages and disadvantages of a formal coaching scheme for Fouce's staff. Some candidates did not perform well on this question however, and this was largely due to either very generic answers or answers which were provided in a bullet point format with no explanation or application at all.

Candidates demonstrated a sound understanding of coaching and mentoring and importantly, most applied this knowledge in the context of groups of professionally qualified and senior experts working together.

### **Organisation of mentoring scheme**

The second element of the section related to how best to organise a formal scheme. This was not as well answered, as many candidates provided more theoretical answers, relating to change management or team building.

### **Management of business relationships**

The third element of the section, relating to management of the business relationships was not answered well by most candidates as they did not seem to understand what was required in this part of the question. Few considered the need to operate as a single unified entity for its duration or discuss the need for integration and unity. Again, most answers were largely generic, focusing upon team building issues. Few recognised how to overcome cultural and geographical barriers.

### **Decision making**

The final aspect of the section, relating to decision making was not well answered by many candidates as, again, they seemed to misunderstand what was being asked. Many answers incorrectly focused upon the general difficulties of making decisions in the oil exploration industry rather than upon the particular issues and challenges that would be faced by Fouce and Slide making decisions together.

This section was not well answered in general.

**Variant 3**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Relationship with aims of syllabus:</b>
<b>Section 1</b>	advise on strategic implications of relocating head office	Business skills	E3 – evaluate the process of strategy formulation
	advise on risks associated with relocation	Technical skills	P3 – evaluate financial risks facing an organisation
<b>Section 2</b>	advise on selection of country for relocation	Business skills	E3 – evaluate the tools and techniques of strategy implementation
	advise on change management issues for senior managers	Leadership skills	E3 – recommend change leadership processes in support of strategy implementation
	advise on change management issues for junior staff	Leadership skills	E3 – advise on the important aspects of organisational change
	advise on the role of the transition team	People skills	P3 – evaluate the tools and processes required for strategy implementation
<b>Section 3</b>	advise on IS issues	Technical skills	E3 – evaluate the information systems requirements for successful strategic implementation
	recommend approach to cost management	People skills	E3 – evaluate the opportunities for the use of IT and IS for the organisation, including Big Data
	advise on challenges for treasury	People skills	F3 – evaluate strategic financial and non-financial objectives of different types of entities
	advise on success criteria	Leadership skills	P3 – evaluate control systems for organisational activities and resources

## Comments on performance

### Section 1

#### **Strategic implications of moving head office**

Slide is considering moving its head office from Europe to the Middle East. The task required candidates to consider the strategic implications for the company.

This part was generally answered quite well, with a range of sensible suggestions as to the implications for the company of this relocation. Better answers tended to focus on the fact that the key issue is the relationship between Slide and its new host government. It will be easier for an oil company to deal with the government of an oil-producing country if it is based there, or in a neighbouring country. Good answers linked this issue to the fact that Slide's business model tends to involve a series of relatively short-lived projects, with wells being sold on as and when they have been discovered and evaluated.

#### **Strategic risks**

This task continued by asking candidates to identify and address strategic risks that might arise from the move.

Many candidates offered a range of valid risks and made sensible suggestions as to their resolution. As with the previous task, it was important that risks should be strategic in nature and that the recommendations were realistic responses.

Some scripts repeated strategic implications from the previous task and presented them again as risks. That was acceptable, but only if additional insights were being offered. In general it is unlikely that marks will ever be awarded twice for exactly the same material.

Weaker scripts tended to offer lists of bullet points as risks. It is unlikely that a Board member would accept such a paper in the real world. There was sufficient time to elaborate on the key risks.

## **Section 2**

### **Strategy for choice of country**

This task asked candidates to discuss the strategy for the selection of a country for relocation. Better candidates focused on major strategic issues, such as tax, government incentives, and so on. The basic focus was on the impact of the choice on cash flows and risks, both of which would be key to determining shareholder wealth.

### **Senior management relocation**

This task asked candidates to consider the desirability of relocating to another country. Candidates were asked to consider the possibility that senior managers might not be prepared to relocate in order to continue to work for Slide. The task required some thought about the nature of the people who were being asked to move. They would almost certainly be employable in other companies that would permit them to remain in Kayland.

Better candidates considered the possibilities that Slide could reduce the difficulties to be faced by these managers by offering a support package, including accommodation, private education for children and so on.

### **Other staff members**

Essentially, candidates were being asked how Slide might motivate the staff members who would be required to assist with the move, before being made redundant. Again, a number of candidates made unrealistic arguments concerning informing the employees that Slide would benefit from them losing their jobs in this way.

### **Transition team**

Slide intends to create a team to manage the transition. This shifts the focus from the strategic to the more specific matters that have to be addressed in order to ensure a smooth transition. The question specifically asked for a discussion of the main tasks that will have to be undertaken by this team.

Some candidates offered a realistic set of tasks that were relevant to Slide and would have been considered important in practice. Weaker answers tended to address wider issues than those sought by the question. Instead of suggesting operational tasks that should be undertaken, they addressed the attributes and skills that team members would have to display.

### **Section 3**

#### **Information systems**

Slide's relocation will require the information system to be modified in response to the changes. The question specifically stated that candidates should not write about hardware issues, but many did so regardless and some wrote entirely about physical changes to the system.

#### **Head office efficiency**

The head office is a complex operation in its own right and its running costs will be substantial. The task required candidates to consider ways in which running costs might be minimised, using information that Slide already had and information that could be obtained from elsewhere. Stronger answers considered the implications of the move. Weaker answers ignored the requirement and wrote about updating or upgrading the IT system.

#### **Treasury**

This task required candidates to think about the role of the treasury department and to link that to the scenario.

Stronger answers considered the wider role of the department and the need for work to be undertaken. For example, relocating head office will almost certainly mean relocating the bank account. Slide will almost certainly bank with a major international bank and may continue to work with the same bank in its new location, but there will be a different bank manager and relationship team and that could require the investment of time in meeting with the bank's staff and ensuring that both sides understand one another.

#### **Success criteria**

Candidates were asked to identify the criteria for judging the success or failure of the transition team. Many candidates failed to answer the question and discussed models for identifying relevant criteria, such as SMART. The problem with such answers is not that they offer a model, the problem is that they often offer a model that is then not related to the task.

**Variant 4**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Relationship with aims of syllabus:</b>
<b>Section 1</b>	advise on suppressing news articles	Business skills	E3 – evaluate the influence of key external factors on an organisation’s strategy
	recommend a response to adverse news story	Business skills	P3 – evaluate the ethical impact of risk
	advise on structure of media response team	Leadership skills	E3 – advise on the important aspects of organisational change
	advise on communication with the press	People skills	P3 – evaluate alternative risk management tools
<b>Section 2</b>	advise on risk identification	Technical skills	P3 – evaluate the types of risk facing an organisation and recommend appropriate responses
	advise on impact on share price	Technical skills	F3 – evaluate the value of entities
	advise on communication of costings	People skills	E3 – evaluate the process of strategy formulation
<b>Section 3</b>	advise on use of external consultants	People skills	P3 – evaluate alternative risk management tools
	advise on management of relationship with external consultants	Business skills	E3 – evaluate the influence of key external factors on an organisation’s strategy
	advise on motivation of key staff	Leadership skills	E3 – evaluate the tools and techniques of strategy implementation
	advise on retention of key staff	Leadership skills	P3 – evaluate the tools and processes required for strategy implementation

## Comments on performance

### Overall

Better candidates had clearly made good use of the pre-seen material. For example, in the pre-seen CSR statement it was stated that no oil leaks had required treatment in the previous year. Candidates had clearly anticipated that this might not be the case going forward and many had researched the BP Deepwater Horizon oil spill and used the material well in their answers. It was not necessary to have studied this case in order to answer, but marks will always be awarded for relevant arguments and preparatory reading is likely to help develop an understanding of managing strategy.

Some candidates appeared to be allocating time poorly, with answers to parts of sections varying significantly in length and depth even though they are supposed to be equally weighted.

### Section 1

#### Withdrawing news article

Candidates were presented with the scenario that a story about an oil leak possibly caused by Slide was about to break in the media. They were asked to comment on the wisdom of trying to suppress the story.

This was generally well answered, with candidates offering an effective discussion of the ethical aspects of putting pressure on the newspaper concerned. Many correctly identified that the story could not be suppressed indefinitely, and that attempting suppression risked reputational damage.

#### Responding with the facts

Candidates were asked whether Slide should respond with the known facts. Again, this was generally sensibly answered with reasonable suggestions made for an appropriate course of action.

### **Media response team**

Candidates were then asked to advise on the structure of a media response team. Some candidates produced excellent answers for this requirement, and scored very high marks, providing very specific advice on who should be in the media team, and why. A number of candidates did not include the geologists and engineers but included Wilma as head of exploration. Weaker scripts simply made very general comments on the importance of a good relationship with the media without really addressing the composition of the team.

### **Key factors for press communication**

The final requirement in this section was to consider the key facts the Board needed to take into account when communicating with the press. Very few candidates addressed liaising with the press office and points made tended to be very general rather than specifically tailored to the case study.

## **Section 2**

### **Risks faced by Slide**

This task focused on the risks faced by Slide, followed by the impact on share price and release of information on costings. Candidates were told to focus on risks that were high risk and high consequence. It was unnecessary to discuss a large number of risks in order to score a good mark and most candidates were able to tailor the depth of their answers to the number of risks offered, with more detail provided when fewer risks were discussed. Overall, this section was generally well answered.

### **Why the share price has fallen**

There were some excellent answers to this section, but unfortunately many candidates did not demonstrate much knowledge of the factors affecting share price. There was a great deal to potentially discuss here – the market overreacting, EMH, the impact of necessary costs, increase in risks and so on, but many candidates had a very narrow view of what impacts on share prices. Very few candidates emphasised the over-reaction of the market, but some did refer to the BP share price movements following the Deepwater Horizon spill.

### **Release of costing information**

A small minority of candidates misinterpreted this section, and instead of discussing whether the costing information should be released, discussed whether or not the money to carry out the repairs should be released by Slide, i.e. the ethics of whether or not the repairs should be carried out. This could not score well as it was clear that there was no choice but to repair.

### **Leaving own experts in charge or using Block**

The third task focused on dealing with the oil spill. Candidates were asked to give advice on the decision to leave Slide's own experts in charge or use external specialists. They were also required to advise on managing the relationship with Block, and the actions needed to motivate and inspire Slide's own engineers and geologists.

A wide range of points could be made in this section and it was generally well answered although many candidates focused exclusively on time and cost, not addressing the reputational and practical advantages to using experienced specialists.

### **Managing relationship with Block**

Some candidates rather missed the point about the relationship with Block, not recognising the potential conflict of interest. Many described a need for a SLA with a fixed fee for Block to be negotiated. Whereas in reality there would already be an agreement in place, and the circumstances dictate that Block will have to do whatever needs to be done and pass the cost on to Slide.

### **Motivating engineers and inspiring staff to remain**

This was probably the least well answered section for this variant. Many candidates did not seem to allocate sufficient time to this, and answers were much less well developed than the number of marks available warranted. Although some candidates did recognise that staff could be consulted, or involved with the project alongside Block, many just made very general points about how to motivate staff, bonus schemes, time off, improved working conditions etc. which were not at all tailored to the scenario presented in the case study.

**Variant 5**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Relationship with aims of syllabus:</b>
<b>Section 1</b>	advise on release of bad news	Business skills	E3 – evaluate the process of strategy formulation and E3 – evaluate ethical issues arising from the organisation’s interaction with its environment
	advise on implications of release for share price	Technical skills	F3 – evaluate the value of entities
<b>Section 2</b>	advise on benefits of applying Big Data to forecasting oil price movements	Business skills	F3 – evaluate strategic financial and non-financial objectives of different types of entities
	advise on publishing strategic information in real time	People skills	E3 – evaluate the influence of key external factors on an organisation’s strategy
	advise on motivation of geologists	Leadership skills	P3 – evaluate senior management’s responsibility for the implementation of risk management strategies and internal controls
<b>Section 3</b>	evaluate risks associated with entering shale oil business	Technical skills	P3 – evaluate the types of risk facing an organisation and recommend appropriate responses
	advise on decision making	People skills	E3 – evaluate the process of strategy formulation
	advise on country selection	People skills	P3 – evaluate alternative risk management tools
	advise on creation of team	Leadership skills	E3 – recommend change leadership processes in support of strategy implementation

## Comments on performance

### Section 1

#### Release of news

The first part was a discussion on whether or not to announce the news. Most candidates correctly advised that there should be a public announcement about the revised reserves figures.

Only a few suggested that this wouldn't be appropriate, showing a lack of understanding that the market needs to be kept informed of significant price-sensitive events between financial reporting dates.

#### Ethical issues

It was surprising that not all candidates could list the relevant key principles from the CIMA Code of Ethics (Integrity, Objectivity and Professional Behaviour). Those that did, and then went on to explain how they apply in this scenario, scored high marks in this section.

#### Other implications for relationships with stakeholders

This was generally well answered. Most candidates correctly identified key stakeholders (including government, employees and suppliers) and made sensible observations on the likely effect of the announcement on relationships with these stakeholders.

#### Implications for the share price - short v long term view

Not all candidates considered the long term position, recalling that share prices are the present value of all future dividend returns and hence the long term business prospects (e.g. from ultimately re-opening these wells when the oil rise increases).

Only a minority of candidates picked up the important point that, in an efficient market, the share price is likely to already have fallen sharply as a result of the fall in the oil price and hence, in practice, the announcement itself may have very little impact on the share price.

## **Section 2**

### **Big Data**

This part was generally answered well. Candidates generally had a clear idea of what Big Data is, how it is collected and the costs involved.

Common errors/omissions included:

Failing to point out that futures and options prices are likely to fully reflect Big Data already and it would therefore be significantly more efficient and effective to use this data already publicly available. Not considering possible alternative forecasting methods such as forecasts derived by in-house experts from publicly available economic indicators.

### **Updating reserves information on the website in real time**

This section was generally very well answered. There were some high scores in this section where candidates took that time to consider the potential risks and impractical nature of such a strategy. Most candidates picked up on the key risks but many ignored the impracticality of producing even daily updates of valuations that take much time, possibly running into weeks, to produce at all accurately. A minority of candidates supported the idea and ignored the risks involved and achieved poor scores in this section as a result.

### **Motivation and inspiration of geologists**

Again, there were some strong answers in this section.

Common omissions:

Pointing out that geologists may be reluctant to express a view until they are certain of the likely production outcome under the first proposed scheme. Not looking at the possibility that geologists might be tempted to recommend that a marginal well goes into production in order to secure an added bonus. Consideration of the de-motivational impact of the time delay between assessing a well and payment and/or revision of bonus at the start of production

### Section 3

#### **Risks of entering the shale oil (fracking) business**

Generally excellent answers.

Weaker candidates tended to omit key risks such as:

- Lack of experience of the company and its employees of this business.
- Likelihood of tough competition from other companies already well-established.
- Risk that the new business does not prove to be profitable.

#### **Choice of country**

This section was also generally answered well again. PESTLE analysis and Porter's Five Forces model proved useful here to help ensure that a wide a range of issues were considered.

#### **Team of technical staff**

There were three relevant angles here however, candidates often focused on just one or two of these aspects. The highest marks were generally awarded to those candidates who covered all three.

#### **May 2015 Overall**

Overall the answers were very much improved on the answers given in March. Many candidates had read the preseen and did use it in their answers. Most candidates used the models in a constructive way and did not produce lists of models that were not relevant.

Performance was very much better in this session.