

Strategic level integrated case study – Examiner’s report**May 2017 exam session**

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

General comments

This examination was based on a pre-seen scenario which described a company in the soft drinks industry. The scenario was made available in advance of the exam and a number of variant papers were set, each offering additional scenario-based information and each setting three sections to be completed. Each section was split into two or more specific elements. This is a very interesting industry which most candidates would understand. The pre-seen scenario was detailed and well prepared candidates should have been able to give good answers in the context of the industry. The unseen scenarios were interesting and presented some realistic questions on the industry.

Candidate performance

Performance overall was reasonably good for many candidates, there were noticeably fewer incomplete scripts which was good to see. There were several weak areas which candidates must improve on in the future. Ethics, where many candidates could not name the ethical principles, apply them or even recognise an ethical issue, was one poor area, the other was finance where the lack of ability was surprising. Dividends, valuations, debt covenants, consolidations and Delphi were the main technical areas that caused problems for candidates this time. It is clear that candidates are becoming weaker at technical accounting questions and better at management questions which is not ideal. It is hoped that candidates redress this balance in the future.

Most candidates now give a very good structure to their answers which is excellent, it makes it much easier to read and understand.

The main problems were candidates failing to answer what was asked and writing everything they knew on the topic being asked about. Many candidates did apply their answers to the industry which was good. However some candidates did not appear to be familiar with the pre-seen material at all. Most candidates attempted all three sections of the variants.

Some candidates had made good use of the pre-seen materials and showed an understanding of the soft drinks industry which was good to see. 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.

In most of the questions it was hoped candidates would be able to use industry knowledge and knowledge of the company to help formulate answers. There was some evidence of this but some candidates appeared to know very little about the industry.

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 tasks they are given.

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:	Syllabus lead learning outcome:
Section 1	Recommend approach to stakeholder management	Leadership skills	E3 A1d - recommend how to build and manage strategic relationships with stakeholders
	Evaluate risk register	Business skills	P3 A2a - recommend techniques that will enable the board to discharge its responsibilities with respect to managing risks
Section 2	Evaluate an ethical dilemma	People skills	P3 B2a - evaluate the risks of unethical behaviour
	Advise on social reporting	Technical skills	F3 A1c - advise on the use of sustainability and integrated reporting
Section 3	Explain factors causing share price movements	Technical skills	F3 C2a - calculate the value of a whole entity
	Evaluate arguments concerning shareholder wealth	Leadership skills	F3 A1a - advise on the overall strategic financial and non-financial objectives of different types of entities
	Discuss forecasting	People skills	E3 B2a - evaluate strategic analysis tools
	Discuss creation of strategic options	Business skills	E3 B1b - recommend strategic options

Comments on performance

Section 1

Generally this seemed well answered with students understanding the potential issues. However, some candidates appeared to have difficulty with the second requirement regarding risk.

Stakeholders

Candidates on the whole gained many good points on the stakeholder management requirement of the section. The weakest part curiously was with regard to the consumer, with the medical profession being given the best evaluation. Generally performance was strong in this whole area.

Risk register

With regard to the second requirement, this was generally rather weakly answered. Some candidates had clearly spent more time answering the first part of the section. There also appeared to be a lack of consideration for the time line of events here and the evolution of the risk register reflecting the changes in circumstances over time.

On the whole there was a lack of substance to answers and many struggled to find more than a handful of points from those available. Stronger candidates reflected that the gravity of the risk had always been recognised and they highlighted that it had long been threatened but had been lobbied out. Most highlighted the need to revisit old risks and re-assess from time to time.

Section 2

The first part of section 2 concerned a commissioned report by a leading dietary expert not providing Fizz the support it was expecting, leading to the ethics of suppressing the report and promoting other evidence to the contrary. The second part related to whether the sustainability report should include an element on consumer safety. Candidates were generally a little weak on both requirements.

Ethics

With regard to the professor's report, candidates generally took a very narrow views on this. One-sided arguments were presented with rather bland views regarding concerns that the report would be exposed eventually, or issues about the habit forming aspects of sweeteners, rather than discussing the health related issues.

Very few presented a case for and against. Candidates could have highlighted that this was one report amongst many and that a balanced view could be given without suppressing the facts as presented in the report.

Sustainability

With regard to the second requirement, many candidates wrote at length about general safety issues with very little about the actual consumption of the product. Factory production, H&S records etc. are all irrelevant to consumer safety.

There were very few good answers. A few candidates picked out ingredient selection, purity and freedom from contamination in the industrial process, but the actual treatment of health factors from the professor's report were scant.

Section 3

This was a four part question with very mixed responses.

Parts 1 and 4 were generally very good, part 2 reasonable and part 3 quite weak.

Share price movements

There were many good general comments on EMH and sensible tracking of share price against time. Stronger candidates related back accurately to the scenario.

Maximise shareholder' wealth

Strong candidates demonstrated their knowledge about relative values against similar shares, and optimised performance in difficult market circumstances in the short run, but focusing on long term capital growth. Poorer candidates mostly gave assertions that shareholder wealth was being protected despite the 10% drop and failed to reflect on the wider picture.

Delphi method

It was apparent that many candidates knew little about the Delphi technique and some poorer candidates omitted this part altogether. Stronger candidates produced a definition and followed through as to how it could be applied.

Strategic options

Some answers tailed off at the end with short and rather weak responses, but many candidates offered excellent answers here.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Discuss ethical issues	People skills	E3 A2a - evaluate ethical issues and their resolution within a range of organisational contexts
	Recommend approach to communication	Leadership skills	P3 E1b - evaluate conflicts that may arise from capital investment decisions
Section 2	Advise on currency risk	Business skills	P3 D2b - evaluate appropriate methods for the identification and management of financial risks associated with international operations
	Discuss impact on capital markets	Technical skills	F3 B2a - evaluate alternatives to cash dividends and their impact on shareholder wealth and entity performance measures
Section 3	Advise on company valuation	Technical skills	F3 C2a - calculate the value of a whole entity
	Recommend an exit strategy	Business skills	F3 C3b - evaluate post transaction issues
	Discuss staff management	People skills	E3 D1b - recommend solutions to problems in strategic performance measurement
	Recommend KPIs	Leadership skills	E3 D1b - recommend solutions to problems in strategic performance measurement

Comments on performance

Section 1

The ethical issues relating to a product placement

This question was not answered well. Many candidates provided answers which focused more upon the ethical actions of Billy Boxx and/ or selling fizzy drinks rather than focusing on the ethical issues relating to this specific product placement decision. The question was not about Billy Boxx's comments in the newspaper article, however many answers focused upon this only. This was not required. Likewise, many answers considered the ethics of selling fizzy drinks in general, which again, was not the focus of the requirement. Few candidates presented a well-rounded argument which considered both the potential ethical and business-related issues of this decision

Response to shareholders concerns relating to the proposed marketing expenditure

Candidates performed reasonably well on this part of section 1. Most candidates considered the required responses to shareholders concerns, including convincing shareholders of the long-term nature of marketing investments and the achievement of its strategic objectives of overseas expansion. However, most answers failed to consider how this information should/ could be best communicated to the shareholders.

Section 2

Currency risks

Many candidates answered this part of the requirement reasonably well, demonstrating sound knowledge and understanding of translation risk and economic risk. Candidates were not asked to consider the techniques to manage these risks but credit was given to those candidates who recognised that managing these currency risks would be an issue for Fizz. However, candidates must make sure that they only focus on the requirement asked, as some went off track with discussions of PESTEL analysis when evaluating economic currency risk.

Implications for shareholders of a scrip dividend

This part of the section was answered reasonably well by most candidates. Most answers demonstrated a sound understanding of scrip dividends and there were some very good discussions of how this would affect Fizz's shareholders. However, some answers were overly theoretical and not sufficiently applied to the shareholders of Fizz and the proposal to fund the working capital requirements. Candidates must remember that all answers should be applied to the scenario information.

Overall, section 2 was answered well by candidates. There was evidence of good application and a sound understanding of a range of strategic issues.

Section 3

How to value the target business

This part of section 3 was answered well by candidates. Most candidates presented a sound discussion of a range of potential methods to value the target business. Most answers recognised the difficulties of valuing an unlisted business and made appropriate recommendations accordingly. Weaker answers were those that focused largely on the theory of valuation of a business and those that presented no overall recommendation.

Issues associated with preserving an adequate divestment strategy in the event that the US venture is unsuccessful

The second part of the section was not answered well by most candidates. Many candidates clearly did not understand the requirement and either failed to attempt this part of the section or provided very thin answers. Most candidates merely discussed the types of divestment strategies which could be undertaken by Fizz, rather than the issues related to preserving a divestment strategy.

Challenges of retaining Deliver's existing sales force

This part of the section was answered well by most candidates. Most recognised the potential difficulties of integrating Deliver's staff into the business operations and the potential actions Fizz could take to address these challenges. Many answers presented a wide range of challenges, including cultural differences, pay and bonus expectations and staff resistance and most answers were well applied.

KPI's to monitor Deliver's relationship with Pronto

This part of the task was answered reasonably well. Many answers presented a reasonable range of potential KPI's although many candidates merely presented an unexplained list of general KPI's. Candidates were expected to explicitly focus on KPI's relevant to measure Deliver's performance in managing its relationship with Pronto. Therefore, merely stating 'Growth in profit margin' was not sufficient unless explained in the context of how this would be directly relevant to measuring Deliver's performance in its relationship with Pronto.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Discuss use of derivatives	Business skills	P3 D2c - evaluate appropriate methods for the identification and management of financial risks associated with debt finance
	Evaluate scenario planning	Leadership skills	E3 B1a - evaluate the processes of strategic analysis and strategic options generation
Section 2	Discuss usefulness of financial reporting	Technical skills	F3 A2c - evaluate the impact of the adoption of hedge accounting and disclosure of financial risk ...
	Discuss management of a team	People skills	E3 D1b - recommend solutions to problems in strategic performance measurement
Section 3	Discuss diversification	Technical skills	F3 C2a - calculate the value of a whole entity
	Discuss shareholder wealth	Business skills	F3 A1a - advise on the overall strategic financial and non-financial objectives of different types of entities
	Recommend controls	People skills	P3 C2a - evaluate the essential features of internal control systems for identifying, assessing and managing risks
	Discuss internal audit	Leadership skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations

Comments on performance

Section 1

Fixing ingredient prices

Candidates generally understood the issues arising from fixing prices. The company sells its own branded product, but it is still in competition with other manufacturers and price could be an issue. Answers generally saw both the upside and downside associated with fixing.

Scenario planning

Answers to the second requirement were more varied. Good answers identified future scenarios that were both credible and that would require significant input from management should they arise. There was a substantial tail of weak answers, including a number whose only scenario was an increase in ingredient prices (the one scenario specifically not permitted as an example).

Section 2

IFRS disclosures

A significant minority of candidates answered the question as set, by reading through the disclosures provided and offering helpful insights into competitors' behaviour. Poor answers tended to summarise the rules relating to hedge accounting, with little or no direct attempt made to answer the question. It would have been preferable for the latter group of candidates to have invested a little more of the time available for this question in planning an answer.

Hedging department

Candidates tended to answer the second requirement well. Arguably, it would be possible to justify the need for a wide range of business skills for this team, but the key is to offer a justification and most candidates were able to do so.

Section 3

This question had two pairs of requirements that had some link within them. The first pair dealt with diversification and shareholder wealth and the second with internal control and internal audit.

Diversifiable risk

Answers to the first requirement were disappointing. Candidates appeared to be capable of defining systematic risk and unsystematic risk. Very few candidates recognised that shareholders can diversify unsystematic risks away provided they construct a

portfolio carefully. For example, it is debateable whether shareholders require a hedge against sugar prices because they could invest in a different company that processes or manufactures sugar. That would mean that any movement in sugar prices would create offsetting gains and losses for the shareholders.

Shareholder wealth

Arguments concerning the share price and shareholder wealth were also often a little under-developed. This requirement did not necessarily have an obvious answer, but it is worth considering how the directors can measure their impact on shareholder wealth given that its maximisation is the cornerstone of their responsibilities.

Internal controls

Candidates were generally good at developing controls to manage hedging. Perhaps this reflects an awareness of some of the “rogue trader” cases or perhaps it was an ability to develop control systems. In any case, it was encouraging to read sensible suggestions for managing control risks.

Internal audit

Answers to the final requirement did not always live up to the expectations created by the third. It should have been possible to have taken some of the controls listed previously and devised a sensible compliance test to establish whether the control was working. Weaker answers often suggested rather impractical tests.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Evaluate a strategic proposal	Business skills	E3 B2b - recommend how to manage the product portfolio of an organisation to support the organisation's strategic goals
	Evaluate an ethical dilemma	Leadership skills	P3 B2a - evaluate the risks of unethical behaviour
Section 2	Advise on managing relationship with a stakeholder	People skills	E3 A1a - recommend how to build and manage strategic relationships with stakeholders
	Advise on social reporting	Technical skills	F3 A1c - advise on the use of sustainability and integrated reporting ...
Section 3	Evaluate share price changes	Technical skills	F3 C2a - evaluate the validity of the valuation methods used ...
	Advise on the management of a contested bid	People skills	F3 C3a - evaluate alternative pricing structures and bid process ...
	Devise internal control system	Business skills	P3 C2a - evaluate the essential features of internal control systems ...
	Recommend work to be conducted by internal audit	Leadership skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations

Comments on performance

Section 1

Copying new product

Candidates were asked to evaluate the strategy of launching a new range of drinks based on reverse engineering of their competitor's new product line. This was generally well answered. Many candidates gave a balanced discussion noting pros and cons. Many also made good use of the material raised in the pre-seen material, although the commercial aspects and financial implications could have been developed further.

Ethical risks

Candidates were also asked about the ethical risks associated with analysing the competitor's product in order to copy it. This was less well addressed. Many candidates did not believe that there were any ethical implications from copying Qwench's product and failed to consider or apply CIMA's code of Ethics.

Section 2

In section 2, candidates were asked how Fizz might develop a strategic relationship with War on Hunger, a prominent critic of their competitor. They were also asked how Fizz could expand their sustainability report to address the concerns of shareholders and consumers in respect of sourcing ingredients.

Strategic relationship with charity

Discussion of how to develop the strategic relationship was often very unbalanced. Many candidates made relevant and practical suggestions as to what could be offered to War on Hunger, and showed a solid understanding of War on Hunger's likely concerns. But few considered the implications for Fizz and the benefits they should look to gain from the relationship.

Sustainability reporting

Expansion of the sustainability report was less well discussed, many candidates recognised the concerns of consumers and shareholders but did not provide any specific detail or real measures for inclusion in the report.

Section 3

Task 3 asked candidates to discuss the share price impact of a bid for West African Produce, and how the deal should be negotiated. They were also asked to recommend key controls to ensure that the correct price is paid for produce, and what tests WAP's internal auditors are likely to conduct to check these.

Making sense of share price movements

The discussion of the share price impact was well attempted, with many candidates showing good technical knowledge and applying it to the circumstances of the case study.

Negotiation

Discussion of the negotiating strategy tended to be too simplistic and generic, not related to the specifics of the case. Many candidates did not recognise WAP's board's concerns.

Internal controls

The identification of key controls was very variable, better candidates explained appropriate segregation of responsibilities and specific relevant paperwork capable of effective checking and verification. A few misunderstood the requirement and discussed methods of share valuations instead.

Internal audit

Internal auditors' tests were often limited to general descriptions of the various audit testing approaches, namely substantive, compliance and analytical review, rather than the specific tests which should have been designed for the circumstances of the case.

The final two parts were generally less well addressed than the first two, which may indicate some time pressure or that candidates had less technical knowledge of the subject matter.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Recommend approach to managing a stakeholder	People skills	E3 A1d - recommend how to build and manage strategic relationships with stakeholders
	Recommend communication strategy	Technical skills	F3 A1a - advise on the overall strategic financial and non-financial objectives of different types of entities
Section 2	Evaluate an ethical dilemma	Business skills	E3 A2a - evaluate ethical issues and their resolution within a range of organisational contexts
	Evaluate CEO performance	Leadership skills	P3 B1b - recommend solutions for the risks of dysfunctional behaviour arising from the associated models of performance measurement
Section 3	Evaluate a dividend decision	Technical skills	F3 B2b - recommend appropriate dividend policies ...
	Recommend approach to managing debt covenant	Business skills	F3 B1b - evaluate an compare alternative methods of raising long-term-debt finance
	Discuss communication with shareholders	People skills	P3 A2b - advise the board on its responsibilities for reporting risks to shareholders and other stakeholders
	Evaluate a governance issue	Leadership skills	P3 B3a - evaluate the risks associated with poor governance structures

Comments on performance

Section 1

Approach government

Candidates should have recognised that it would be difficult to deal with the threat of government action. The secret is first of all to consider the most effective way of doing so, such as making a joint approach with other industry members. Secondly, candidates should have thought about what they might say, such as offering to address the concerns by voluntary means, which would simplify the government's task.

This requirement was done well by most candidates. Many candidates raised the idea of a joint approach which was good.

Briefing shareholders

Candidates should have paid roughly equal attention to identifying what should have been said and to explaining why.

Answers could have considered both the implications for Fizz and the stewardship issue of the manner in which Fizz's Board was dealing with the problem.

Again there were some very good answers to this part. Candidates were very good at discussing the financial issues but less proficient with regard to the non-financial issues.

Section 2

Energy drinks and ethics

Candidates should have offered a sensible view of the ethical arguments. While the facts may be presented in a damaging fashion, consumers should know that they cannot drive trucks while exhausted or consume excessive amounts of any product. That leaves questions about the possibility that Fizz has not actually encouraged irresponsible behaviour.

Candidates are not usually very proficient at questions on ethics and unfortunately this question was no different.

Answers were often just impractical and did not relate to the question. It is important that answers use the scenario and the pre-seen information when responding to the requirements.

CEO's performance

Candidates should have been realistic about the CEO's performance in court. Arguably, he could have done little differently, apart from controlling his temper at the end. That final outburst could have been more than has led to the removal of other prominent

CEO's from office (e.g. the boss of BP complaining that he wanted to go home during the spill in the Gulf of Mexico). There could also be wider issues about taking the matter seriously and signalling change.

This question was again not answered well. Many of the suggestions were just that Hong should be immediately removed from office. Some suggestions were not practical and were an overreaction to the situation.

Section 3

This section was essentially two pairs of linked requirements.

Dividend

Candidates should have recognised that Helen was not only a very new appointment but was also likely to be a short-term incumbent who had been brought in to turn Fizz around. That might affect the impact of the dividend announcement. There is also the very size of the dividend, at a time when the new CEO also intends to expand. Many candidates concentrated on the fact it was an interim dividend and not a final one. This was not as important as the previous issues mentioned.

Debt covenant

Again, candidates should have focused on the circumstances of the company and of its financial position. There was little likelihood that the lenders would see any advantage in agreeing to relax the covenant to that extent. Answers should have reflected that problem. Many candidates just simply assumed the lender would change the covenant; this would be very unlikely. Candidates should have discussed the financial position of the company in detail and come to a reasoned response. Marks were quite low in this section.

Communication with shareholders

Candidates should have explained how a dialogue between Helen and the key shareholders might resolve and improve matters. Answers might have considered the benefits of being transparent and answering questions as well as demonstrating the maturity of being willing to listen to concerns. This part was answered badly with many candidates just saying it would not help. Some discussion on how it would help was what was expected.

Michael Clann

Candidates were free to discuss the governance issues associated with the basic question of the Chairman's son being appointed as CEO. There was also the question of Michael having worked through the ranks and skipping a rank in order to be appointed CEO. Few candidates suggested that there could be a problem with the Chairman's son being the CEO which was disappointing.

There were marks available for discussing other issues and these were often achieved. Relevant points were assessed on their merits and given credit.