

CGMA Exam – Examiner’s report

November 2015 exam session

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

General comments

CGMA Exam – November 2015 – Rationale

This exam was based on a pre-seen scenario which described a company in the timber 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 to four specific elements.

Candidate performance

Performance overall was reasonably good and in some cases excellent, with the usual handful of poor scripts. Performance was, however, not as good as it was in August. There were several weak areas in which candidates must improve in the future. Ethics, where many candidates could not name the ethical principles or apply them or even recognise an ethical issue, was one poor area, the other was finance where the lack of ability was surprising.

The main problems were candidates failing to answer what was asked and instead writing everything they knew on the topic concerned. Many candidates did apply their answers to the industry which was good. Nearly all candidates answering the variants attempted all three sections. However, there still seems to be a problem with a significant number of candidates presenting answers which lack sufficient depth and development.

Some candidates had made good use of the pre-seen materials and showed an understanding of the timber 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 ones.

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 strong evidence that many candidates had familiarised themselves with the industry which was very good.

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 should 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 simply have knowledge of topics, candidates must be able to apply their knowledge to a variety of situations and show they have an in depth understanding of the subject matter.

Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Analyse on economic risks associated with USD	Business skills	E3 (A1) - evaluate the influence of key external factors on an organisation's strategy
	Explain logic of leaving economic risks unhedged	Technical skills	P3 (D2) - evaluate alternative risk management tools
Section 2	Advise on management of share price	Leadership skills	E3 (B1) - evaluate the process of strategy formulation
	Advise on briefing analysts	People skills	F3 (C2) - evaluate the value of entities
Section 3	Advise on ethics of protecting confidence	Leadership skills	P3 (B3) - evaluate the risks associated with corporate governance
	Advise on implication of diversification for shareholders and directors	Technical skills	P3 (E1) - evaluate the risks arising from changes in the environment for capital investment appraisal
	Advise on acceptance of generous severance package	People skills	P3 (A3) - evaluate the ethical impact of risk
	Advise on predicting impact of USD weakening	Business skills	E3 (A1) - evaluate the influence of key external factors on an organisation's strategy

Comments on performance

Section 1

Section 1 began with a request to explain the nuances of the impact of currency movement on competitiveness to the naïve marketing manager and continued with a request to explain why hedging had not taken place.

Many gave excellent examples of comparisons of purchase quantities against exaggerated movements and the fact that US currency based economies would benefit. Many went on to show that demand was probably reduced because of poor economic performance, highlighting construction, as a major wood consumer, being a strong indicator of future market movement.

The best students linked the industry with its natural ability to delay cropping as a means of maintaining and growing reserves, with a 10 year cropping window whilst maintaining peak growth gives a very powerful benefit, especially when considering carbon credits and the like which can be realised without cropping at all.

Poorer candidates tended to give a list of hedging tools and techniques without necessarily demonstrating their applicability to the scenario or the difficulties presented in one way trade. Many failed to explain reasons for not hedging, usually saying they would do so now!

Section 2

Section 2 opened with requested actions to protect share price against the effect of the weak USD and continued with a query as to whether industry analysts should be involved. There was a specific request to highlight the ethics involved.

On the whole, this first task was very well answered, often with excellent strategic thoughts on future shaping of the business towards emerging market needs in context of carbon credits, consultancy, wood's management, leisure, etc.

Most candidates highlighted the needs to create effective and truthful messaging for the shareholders and stakeholders. Many looked at weathering whatever storm there might be, having already surfaced the other side of two major market downturns and giving comparison to Darrell.

The link to the analysts was perhaps less well answered here. The best, as ever, immediately recognised the need to inform stakeholders in parallel and not to give any unique information to the analysts. The best candidates focused on the strategic view and process; the weaker ones tended to repeat the first task.

Poor candidates tended to say very little, perhaps having already run out of time, there were not many very weak answers. Overall the ethical position was reasonably well covered by some candidates although few gave it explicit 'CIMA' coverage.

Section 3

Section 3 was a multi-section question which seemed to cause some candidates confusion, as a number missed answering one or more parts. Perhaps, because they were confused, they simply missed the question, felt unable to answer direct personal questions or simply didn't know the answer.

On hearing the phone call:

Task 1; would it be unethical to respect my privacy?

Task 2; shareholders can better protect themselves

Task 3; Justify Severance

Task 4; Difficult to evaluate USD weakening

Taking each in turn:

Task 1

Good candidates gave excellent structured clear answers. There were a good number who gave mature and concise answers to task 1. Quite a few were poor, giving nothing much or even recognising the ethical dilemma at all; a "not illegal, not my problem", type answer! There was a wide range of marks for this task.

Task 2

Lots of vague answers here as many candidates failed to grasp the question, from full portfolio diversification coupled with full fiduciary duty for the best answers to partial or one sided answers, through to next to nothing for the poor students. Again a wide range of marks, this task demonstrated poor financial knowledge which was surprising.

Task 3

Lots of perfectly adequate answers here, highlighting the terms and conditions of directors' employment. Many reflected on whether actual wrong had been perpetrated in neglecting duties and thereby perhaps being ethically bound to not accept, or whether unlawful action had taken place, being subject to criminal action and possible restriction on terms. There was a wide range of marks for this task.

Task 4,

Generally quite well answered by many candidates.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Recommend approach to management of political risk	People skills	P3 (D2) - evaluate alternative risk management tools
	Advise on residual risk	Business skills	E3 (A1) - evaluate the influence of key external factors on an organisation's strategy
Section 2	Advise on signalling implications of funding decision	Leadership skills	E3 (C1) - advise on the important aspects of organisational change
	Recommend approach to management of new venture	Technical skills	F3 (B1) - evaluate the financing requirements of an entity and recommend a strategy for meeting those requirements
Section 3	Advise on commitment to indigenous tribe	Business skills	E3 (D1) - evaluate the tools and techniques of strategy implementation
	Advise on sustainability	Technical skills	F3 (A1) - evaluate strategic financial and non-financial objectives of different types of entities
	Advise on rehousing tribe	People skills	P3 (B2) - evaluate ethical issues facing an organisation and its employees
	Advise on risks associated with sending CEO to provide focal point for media	Leadership skills	E3 (C3) - recommend change leadership processes in support of strategy implementation

Comments on performance

Section 1

The first task of Section 1 focused upon the challenges for Wodd in building a relationship with the Bravadorian government. There were some good answers to the first task of this section, with many candidates providing comprehensive answers relating to the need for transparent and open communication and the possible use of lobbying. Candidates who scored well on this part focused answers upon Wodd's commitment to building sustainability and opportunities for local employment in Bravador. However, some candidates incorrectly focused too much upon the general political environment in Bravador or provided answers which focused more upon communication techniques that Wodd should use.

The second task of Section 1 asked candidates to consider the political risks that Wodd was likely to face in Bravador. Overall, this part of the section was well answered by most candidates. Most answers focused correctly upon the possibility of a change of government and the possibility of a change in legislation or government policies in the long term. Some candidates incorrectly undertook a detailed PESTLE analysis, which was not required and largely did not answer the question set. However, most candidates did score reasonably well on this part of the section.

Overall, candidates performed reasonably well on Section 1

Section 2

Many candidates provided a reasonable answer to the first task of this section, identifying a wide range of changes, including the need for new staffing arrangements, updated marketing activities, new technology and machinery and new performance measurement systems. However, few candidates considered the possibility of a joint venture, which was disappointing. In answering the management of the changes, the majority of candidates used Lewin's Three Stage Model to formulate their answers which, when applied directly to the case, was awarded good marks.

The second task of the section, relating to the proposal to suspend the dividend to shareholders as opposed to offering a rights issue was answered reasonably well by most candidates. Many candidates demonstrated a sound understanding of the merits and drawbacks of dividend suspension and importantly, most answers applied this knowledge directly to Wodd. However, some candidates did not perform well on this task, mainly due to focusing upon the merits and problems of rights issues, which was not asked for. Also, some candidates provided very theoretical answers to this question with little or no application directly to Wodd. Candidates must make sure they read the task information carefully.

Overall, candidates performed well on Section 2.

Section 3

Candidates were required to address four separate tasks within this section:

Is it acceptable to develop the forest, considering the rights of the indigenous people?

This task was not answered well by most candidates. Few really considered the 'legal and customary' aspect of the FCSM's 10 principles. Most candidates merely stated that it was absolutely unacceptable but gave little real justification for this. However, some very good answers considered the issue from the perspective of a range of key stakeholders and then provided a balanced argument for the acceptability of the proposal based upon the stakeholders' perspective. However, overall, most candidates provided rather weak answers to this task.

Fairness of environmental protestors' complaint about Wodd's unsustainability

The second task of the section required candidates to consider whether the complaints against Wodd made by the environmental protestors were fair. This part of the task was answered reasonably well by most candidates. Many referred to Wodd's history and record of high standards of sustainability and recognised that improved communication with protestors would assist in improving the

understanding of the environmental protestors. Those candidates who scored badly on this part of the task did so largely because they failed to answer the question set, in that weak answers often merely stated whether the complaints were fair or not, with little or no justification at all.

Ethicality of offering to build a village and education and medical facilities to the tribe

The third task of the section, relating to the ethical issues relating to offering to build a village for the tribe and offer medical and education facilities, was answered reasonably well. Most candidates attempted to use CIMA's ethical code to formulate an answer and largely focused on the 'Integrity' and 'Objectivity' aspects of the code. Where applied to Wodd, these answers were largely reasonable and well argued. However, many candidates made strong statements about the lack of ethics involved in the decision but failed to justify or back this up with strong arguments. Candidates must ensure that any statement or argument made must be backed up with evidence. Many candidates failed to do this and merely stated 'this is unethical'.

CEO flying to Bravador to appear on TV in his boots and overalls

The final aspect of the section related to whether the CEO should fly to Bravador to appear on TV. Most answers did correctly mention the importance of the CEO being the figurehead of Wodd and the importance of him being seen to take a keen interest in the serious problems being encountered in Bravador. Unfortunately, most answers went little further than this.

Some candidates were distracted by the reference to the CEO's attire and focused their answers upon the clothing he should wear to appear on TV. This was an unfortunate misinterpretation of the requirement. In general this question was not well answered, largely because answers were very thin and undeveloped. This may be due to this being the last element of the examination. However, candidates must make sure that they do put sufficient effort into answering the final section.

Overall, Section 3 was not well answered by candidates.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Advise on potential synergies in merger	Business skills	E3 (A1) - Evaluate the influence of key external factors on an organisation's strategy
	Advise on duty of confidence	Leadership skills	P3 (B3) - Evaluate the risks associated with corporate governance
Section 2	Advise on response to shareholder's blog post	Technical skills	F3 (C1) - Evaluate opportunities for acquisition, merger and divestment
	Advise on negotiating strategy	People skills	E3 (B1) - Evaluate the process of strategy formulation
Section 3	Advise on hedging	Technical skills	P3 (D2) - Evaluate alternative risk management tools
	Advise on selection of treasurer	People skills	E3 (A1) - Evaluate the influence of key external factors on an organisation's strategy
	Advise on the need for large staff in order to implement Big Data	Business skills	E3 (E2) - Evaluate the opportunities for the use of IT and IS for the organisation, including Big Data
	Advise on redundancy issues	Leadership skills	E3 (C3) - Recommend change leadership processes in support of strategy implementation

Comments on performance

Section 1

The first task asked candidates to discuss the availability of achievable synergies between two potential merger partners. This was generally answered reasonably well, with candidates identifying the strategies pursued by both companies and also the needs and the expectations shared by both. The key to this question was to focus on the ways in which the two companies might reinforce one another.

The second task asked for a discussion of a realistic but nevertheless complicated ethical dilemma. The company chairman has asked for some advice to be given in strict confidence, with a specific request that the other Board members should not be informed of the matter. That raises a number of questions about whether it is legitimate to grant such a request. Better answers highlighted the difficulties associated with deciding whether or not to grant the chairman's request for confidence. For example, the question of whether it would be acceptable to lie to a superior who asked a direct question about the possibility of a merger. Weaker answers dodged the question by focussing on the risk of a merger being agreed by the chairman acting in isolation, but the question did not suggest that such a possibility is likely or even possible.

Section 2

Answers to the blogger were generally quite realistic. There was a tendency to overlook the fact that the share prices of both companies had risen in response to the news. In other words, Wodd's shareholders were benefitting even if Darrell's appeared to be benefitting by even more. There was a range of responses that could be offered and many candidates identified a number of relevant arguments.

The discussion of the negotiating strategy for the merger often paid insufficient attention to the case and focussed on summarising the steps in a negotiation, as covered in the study materials. While such material can be relevant and will often gain marks, the fact that this is a scenario-based examination should never be overlooked. Candidates should have identified the respective bargaining positions of both parties to the negotiation.

Section 3

Many candidates were able to put forward a case for a particular approach to hedging, although there were a number of arguments that made no reference to the scenario. For example, a substantial minority of the candidates discussed the benefits of switching suppliers in order to incur costs in USD, despite the fact that the nature of the business would make such a move difficult.

Answers to the discussion of the selection of the better treasurer varied in quality, depending on the extent to which candidates were aware of the treasurer's role. A number of candidates offered a sensible set of criteria that touched on the range of skills that a quoted company's treasurer would require.

Answers to the requirement on staffing levels and Big Data tended to vary according to whether the discussion of the exploitation of Big Data was realistic. Given that the data itself would be stored and interrogated electronically, there is not a particular need for a large staff of IT operators. However, many candidates did make a logical and defensible argument that there may be a need to retain numbers of expertise in order to ensure that both sets of data are consistent and can be combined correctly.

Answers to the discussion of selecting staff for redundancy tended to pick up the possibility that managers might attempt to retain their own staff and that it may be difficult to achieve a policy that is in the company's overall best interest.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Advise on likely direction of share price	Technical skills	F3 (C2) - evaluate the value of entities
	Evaluate risks associated with moving into the electricity industry	Business skills	E3 (B1) - evaluate the process of strategy formulation
Section 2	Draft a press release in response to environmental protests	People skills	E3 (A1) - evaluate the influence of key external factors on an organisation's strategy
	Advise on risk management to reassure business contacts	Leadership skills	P3 (C2) - evaluate risk management strategies and internal controls
Section 3	Advise on the logic of spending on environmental protection	Business skills	F3 (A1) - evaluate strategic financial and non-financial objectives of different types of entities
	Implications for control system of forcing staff to fabricate a report	Technical skills	P3 (C1) - evaluate control systems for organisational activities and resources
	Advise on difficulties of motivating wildlife officers	People skills	P3 (B3) - evaluate the risks associated with corporate governance
	Advise on managing directors' aggression	Leadership skills	E3 (D1) - evaluate the tools and techniques of strategy implementation

Comments on performance

Section 1

Section 1 began with the scenario that Wodd was considering a proposal to develop a biomass power station adjacent to their North Forest.

Candidates were asked to discuss how they could predict the impact on Wodd's share price of committing to the project, and the challenges associated with assessing this.

Many students approached this section using the SAF technique. The main weakness in answers was not making any link between their points and the effect on share price, presenting just a general discussions about why Wodd should develop a biomass station

Some weaker candidates spent a lot of time using stakeholder analysis and identifying every single stakeholder who was likely to be affected by the proposal, without any attempt at prioritisation.

Poorer answers only provided one-sided answers e.g. only discussed the likelihood of the share prices increasing.

In the next task candidates were asked to identify the long term risks associated with future revenues from the sale of electricity, and advise on how to manage these.

Weaker answers attempted to list all possible risks associated with the proposal without linking it to revenue from the sale of electricity. Stronger candidates tended to select two or three key risks and explore them in some depth.

Section 2

Section 2 presented candidates with a website created by protesters against the biomass power station.

Candidates were asked to draft a press release in response to the protesters website and to explain what the draft was trying to achieve. This was generally well attempted but relatively few candidates provided any explanation for what they have included in their draft. Weaker candidates listed Wodd's credentials regarding sustainability without addressing the specific concerns of the protesters.

The next task was probably the worst attempted of the variant overall. Many candidates did not mention the bank and engineer at all, and others just stated that the bank and engineer should be reassured by their press release. Even where candidates did provide decent answers to this task, many omitted any consideration of the physical aspects of the impact of safe working in the forest if protesters are present. Most addressed the bank and civil engineer together, not recognising that they might have different roles and concerns.

Section 3

Section 3 was the best answered by many candidates. They were asked to address four separate issues:

Spending shareholder money on protecting wildlife

Generally well answered where students identified the commercial benefits of the expenditure on wildlife, linking their answers to Wodd's need to operate in a sustainable way. Better scripts dealt with both points of view – i.e. that some shareholders may feel the expenditure was inappropriate.

Finance Director requesting report to be changed

The best answers identified that the actions of the FD may cause the wildlife officers to be demotivated and then went on to use information gleaned from the scenario and the pre-seen material to produce some relevant suggestions. Many candidates also explained the wider internal control implications of the Finance Director being the one to request the change.

Motivating wildlife officers

Whilst there were good answers to this task addressing the specific problems of the wildlife officers, there were also weaker more generic answers giving general advice about how to motivate staff members without linking to the case study context.

Directors too aggressive in pursuing profits

Good answers often discussed the balanced scorecard approach, and also addressed the lack of balance on the Board, which demonstrated reading of the pre-seen material.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Advise on ethical behaviour	Business skills	P3 (A3) - evaluate the ethical impact of risk
	Advise on response to journalist query	People skills	E3 (A1) - evaluate the influence of key external factors on an organisation's strategy
Section 2	Advise on conduct of certification investigation	Technical skills	P3 (C3) - evaluate the purposes and process of audit in the context of internal control systems
	Advise on motivation of inspectors	Leadership skills	E3 (D1) - evaluate the tools and techniques of strategy implementation
Section 3	Advise on impact of tax changes	Business skills	E3 (A1) - evaluate the influence of key external factors on an organisation's strategy
	Advise on implications of briefing analysts	People skills	F3 (C2) - evaluate the value of entities
	Advise on likely impact of increased dividend	Technical skills	F3 (B2) - evaluate dividend policies for an incorporated entity that meet the needs and expectations of shareholders
	Advise on motivation aspects of executive stock options	Leadership skills	P3 (B3) - evaluate the risks associated with corporate governance

Comments on performance

Section 1

The first part of the section asked whether Wodd could be accused of acting unethically. Candidates were free to choose any of a number of ways in which the ethical nature of this matter might be explored. This section was the most poorly attempted with many not understanding that there could be an ethical issue. Only a few candidates mentioned the commission being paid. Few candidates discussed the fact that legitimate tax breaks are acceptable and are part of the attraction of investing in forestry. Candidates are often not very good at questions on ethics and unfortunately this case was no exception.

The second part of the section focussed on a response to the newspaper article claiming the forestry company is unethical.

This is a topical issue and the better candidates brought in some of the arguments that were aired during the debates over Amazon and Starbucks. Arguments over the perception of tax management were what was expected and suggestions as to how the forestry company could protect itself were good and varied. The actual ethics of the practices have been dealt with in the previous requirement and no marks were awarded for repeating the same ones again in the second part of the section.

Section 2

This section focussed on whether Wodd could provide a certification service. The candidates were asked what skills would be required and what activities the investigators should do. The focus in this requirement was whether the candidate's proposals make sense. There is, clearly, no specific set of tests that the internal auditor must follow. Candidates often made very poor attempts at this task making suggestions which made no sense at all. There were a few good answers but this section was generally poorly answered.

The next task asked about motivating the investigators and candidates made a better attempt at this.

The dilemma in evaluating any auditor is that there will always be very visible performance measures in terms of the time and financial cost of an investigation, but the actual effectiveness will always be a matter of judgement, with little or no scope for the subsequent evaluation of performance. Any problems that are overlooked may never come to light. The solution was looking for sensible suggestions and many candidates did this well.

Section 3

This section was divided into four parts. The first part was on changes in the tax system and the implications of this. Candidates are free to think widely about the implications. These boil down to the threats and opportunities arising from the fact that it may no longer be desirable for wealthy individuals to invest in property. This task was done well by many candidates with good candidates getting high marks.

The second task in this section asked candidates to recognise the role that analysts play in setting share prices and ensuring that the markets remain well informed. There is nothing that the analysts can do to prevent a short-term reaction, but they may help the markets to settle down in the immediate aftermath of any such announcement. This task was done badly with some candidates unable to answer this at all.

The third task required candidates to offer a reasoned argument about the effect of paying dividends and explore the link between dividends and share price. Dividends will increase the market's confidence, although there could be questions about whether the additional payment is appropriate under the circumstances. There were some good answers to this but some candidates were very weak and did not seem to understand there was any relationship between dividends and share price which was disappointing.

The final task asked about options aligning shareholder and directors interests.

Good answers should reflect both the manner in which options can align the Board's interests with those of the shareholders. There are also, of course, threats arising from the pressure that options can create. Again some very good answers to this task but also some very poor ones.

This section was done well by some candidates but very poorly by others. Many candidates showed very poor finance knowledge.

Tips for future candidates

There are a number of key points to take into account when preparing for future strategic 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 section. 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.