

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

General comments

Strategic case study – November 2016 – Rationale

This paper was based on a pre-seen scenario which described a company in the intensive dairy farming 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. 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, however, several weak areas in which candidates must improve in future. With regards to Ethics, many candidates could not name the ethical principles or apply them. In some cases they were unable to recognise an ethical issue. Finance was another weak area, where the lack of ability was surprising. It is clear that candidates are becoming weaker at technical accounting questions, though better at management questions. It is hoped that candidates redress this imbalance in the future.

The main problems were candidates failing to answer what was asked and instead writing everything they knew on the topic being asked about. Many candidates did apply their answers to the industry which was good, though some candidates did not appear to be familiar with the pre-seen material at all. Most candidates answering the variants attempted all three sections but some missed out some parts of the tasks, for example they would write about risks but not mitigations. 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 understanding of the 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 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 some evidence of this but some candidates did not appear to know anything 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 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:	Syllabus lead learning outcome:
Section 1	Identify issues for sustainability reporting	People skills	E3 A1c - discuss the drivers of external demands for environmental sustainability and corporate social responsibility and the organisation's response
	Discuss governance issues arising from scenario	Leadership	P3 B3a - evaluate the risks associated with poor governance structures
Section 2	Discuss board's responsibilities with respect to financial and non-financial objectives	Technical skills	F3 A1a - advise on the overall strategic financial and non-financial objectives of different types of entities
	Evaluate potential benefits of new IT system	Business skills	E3 E2b - evaluate the strategic and competitive impact of information systems, including the potential contribution of Big Data
Section 3	Discuss ethical issues	People skills	P3 B2a Risks of unethical behaviour
	Advise on internal audit investigation	Leadership skills	P3 A1c - evaluate the effective planning and management of internal audit and internal audit investigations
	Manage threat of foreclosure on loan	Technical skills	F3 A2b - advise on the development of financial strategy for an entity taking into account taxation and other external influences
	Evaluate merits of holding a large cash balance	Business	F3 A2a - evaluate the interrelationship between investment, financing and dividend decisions for an incorporated entity

Comments on performance

Variant one dealt with habitual dosage of antibiotics to ward off the spread of disease inside cattle sheds.

Section 1

Sustainability and comparison of dairy companies.

Sustainability

Generally, most candidates made a reasonable attempt at identifying relevant sustainability issues, with the better candidates providing well considered analysis and explanation of the implications of the points raised.

Comparison of companies

The second part of this item, comparing family owned farms to quoted dairy companies was not quite so well done with very few tackling all aspects of the question, Most gave a rather brief overview of NED's roles often wandering into general theory on Board structure and committees. Many recognised the benefit of not needing so much governance while also recognising that outsider views might actually bring some balance to the group think highlighted in the pre-seen.

Section 2

Board (Family) meeting to discuss implications of ceasing the use of antibiotics as a means of increasing milk yield.

Responsibilities

Most candidates made reasonable points here relating to the responsibilities of board members, but it was only the better candidates who related it to the scenario and the company's use of antibiotics. The weaker students just listed a set of financial and non-financial objectives with points made on continuing the family tradition, few made reference to the wider employment aspects in the agricultural community.

Risks and benefits of investment in Cowpen

Candidates scored quite highly on the second part of this question, making a reasonable evaluation of both the risks and potential benefits of the introduction of the database. The weaker candidates focused mostly on the financial implications.

Section 3

Six months on and three months into new regime of minimal antibiotic use but no apparent decrease on spend on antibiotic, or decrease in milk yield.

Ethical issues

Ethics was usually quite well discussed with most students noting there was an issue with integrity.

It was only the better candidates who identified and discussed specific elements of the CIMA Code of ethics and explained their relevance to the scenario.

Approach of internal auditor

With regard to the approach of the Internal Auditor, many candidates gave some examples of appropriate tests in a rather generic answer but there were a good % who gave very good full answers; discussing all stages of the auditors work, including reporting to the Board and following up on recommendations made.

Bank manager's threat to foreclose

Some candidates gave excellent answers on ADF's approach to negotiating with the bank, with nearly all candidates appreciating the need to arrange a meeting and to be as open and honest with the bank as possible. Those stronger candidates, discussed the possible options available to ADF, so that they might take the lead in discussion with the bank rather than be dictated to.

Cash reserves- sensible strategy?

The last part; on the benefit or otherwise of cash reserves was generally the weakest response in the whole paper and was not properly applied to the case.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Recommend forecasting approach	Business skills	E3 B2a - evaluate strategic analysis tools
	Recommend valuation approach	Technical skills	F3 C2a - calculate the value of a whole entity
Section 2	Evaluate proposed governance structure	People skills	P3 B3a - Evaluate the risks associated with poor governance structures
	Advise on setting strategic targets	Leadership skills	E3 D1b - Recommend solutions to problems in strategic performance measurement
Section 3	Evaluate economic exposure	Business skills	P3 D1a - Evaluate financial risks facing an organisation
	Recommend management of relationship with host governments	Leadership skills	P3 D2b - Evaluate appropriate methods for the identification and management of financial risks associated with international operations
	Discuss implications of flotation	People skills	F3 B1c - Evaluate and compare alternative methods of raising equity finance
	Advise on systematic risks	Technical skills	P3 C2a - Calculate the value of a whole entity

Comments on performance

Overall candidate performance

In general, candidates performed reasonably well on this variant, although there were some elements of tasks where there was evidence of poor strategic application and integration. Candidates must avoid merely presenting theoretical knowledge and must attempt to apply their answers directly to the case material. Candidates should also make better use of the information presented in the attachments to the Tasks.

Section 1

Section1 firstly required candidates to recommend how ADF should go about predicting the amount and timing of any increase in the price that supermarkets would pay for a litre of milk, following the bad publicity evidenced in the attached News Article. Secondly candidates were asked to consider whether ADF can have a value as a business in the light of recent events and recent low profits.

Predicting the amount and timing of any increase in price paid by supermarkets

This question was not answered well by most candidates. Some answers focused merely upon discussions of historical events which had led to the current situation, with little or no discussion on predicting future pricing. Also, some answers focused incorrectly upon the solutions that ADF should adopt if low levels of milk prices continued, such as diversification or selling off assets.

Recommendations for future actions were clearly not asked for in this requirement and candidates must be careful to only address what has been asked. Some candidates did provide some good answers relating to historical predictions, statistical analysis and techniques such as the Delphi method, but often these answers were theoretical and not well applied to their use and application by ADF.

Does ADF have a value?

Candidates performed well on this aspect of Section1. Most candidates presented a range of valuation methods, including assets based valuation, cash flow and profit based valuation. The main weakness of answers to this requirement, was that many answers were largely theoretical and not sufficiently applied in terms of understanding and explaining their suitability to ADF. For example, some candidates provided lengthy descriptions of the Dividend Valuation model without any consideration of its lack of suitability for ADF to value its business.

Some candidates also took a slightly different approach to answering this question by considering future value from the perspective of what ADF could do in the future to add value. Such as diversification strategies or organic farming. Candidates were credited for this approach for reasonable suggestions of future value adding strategies.

Overall, Section1 was answered reasonably well by most candidates.

Section 2

Section 2 covered two separate issues. Firstly, candidates were asked to consider the problems which might occur in the governance arrangements, should ADF become a member of the proposed Hiland Dairy Cooperative. The second aspect of this section required candidates to suggest how ADF might set some sensible strategic targets for the Cooperative's Board.

Governance arrangements of the Hiland Dairy Cooperative

This part was well answered by most candidates. Most candidates demonstrated sound application of knowledge in this requirement, presenting a wide range of potential governance issues relating to the Hiland Dairy cooperative, including separation of responsibilities, self-interest and self-appointment. Weaker answers were theoretical and not well applied to the case material. Some candidates also spent time discussing non-governance issues such as payment of the debenture loan and profit sharing arrangements, which was not directly answering the task requirement. Candidates must make sure they only answer what has been asked. However, overall candidates performed well on this requirement.

How to set strategic targets for the Cooperative Board

This requirement was not as well answered as the previous one. The examiner was expecting candidates to present a range of potential strategic targets for the Cooperative to ensure its long-term success, such as profitability targets, product development targets, milk production and sales targets and customer targets. Some candidates did correctly present and justify a range of targets and explained these in relation to their usefulness to the Cooperative. However, some candidates instead presented a system/process of setting targets, largely based around the strategic planning model, including undertaking SWOT analysis and PESTEL analysis, which was a misinterpretation of the requirement. Also, some candidates merely presented an unexplained list of targets/measures. Providing a list at strategic case level is not acceptable and will not be awarded pass marks. The requirement clearly asked for strategic targets 'with reasons' and therefore unexplained lists are not acceptable.

Overall Section 2 was answered reasonably well by most candidates.

Section 3

In Section 3, time has moved on by six months and ADF has joined the Hiland Dairy Cooperative. The Hiland Dairy Cooperative has a factory that manufactures powdered milk and is now considering opening up a new market to make sufficient profit, potentially in the Far East.

Economic risks from currency movements from export sales

This part was reasonably well answered. Most candidate provided comprehensive answers to this part of the section, demonstrating sound knowledge and understand of currency volatility and its potential impact on ADF's profitability. However, few candidates

considered the volatility relative to other countries that sell dairy products in the Far East, and that as ADF is selling a basic commodity, it is exposed to price changes because it cannot differentiate Hiland milk from that of other countries.

Developing good relationships with governments in target markets

This second requirement was answered well by most candidates. Most candidates focused their answers on the cultural differences which need to be considered and the potential protectionist activities that governments may undertake. Very few candidates actually applied the information presented in the attached news article about the potential health issues relating to dairy products and the actions likely to be taken by governments to protect the health of its citizens. Candidates are reminded to read and make use of the attachments as much as possible.

Implications for ADF of introducing external shareholders

Candidates performed well on this requirement. Most candidates considered the potential impact on the nature of the family run business and the impact it would have on the Anderson family. Most candidates also considered a wide range of other issues including structural and governance issues.

Acceptability to the family of mitigating systematic risk

This part of the section was not well answered. This was a difficult question and, in fact, few candidates made a reasonable attempt at answering it. Most answers were purely theoretical, describing systematic and unsystematic risk only.

Overall, Section 3 was answered reasonably well by most candidates.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Advise on reassuring consumers	Business skills	E3 A1d - recommend how to build and manage strategic relationships with stakeholders
	Recommend approach to exclude unauthorised visitors	People skills	P3 A3a - evaluate ethical, social and environmental issues arising from risk management
Section 2	Recommend disclosures in CSR report	Technical skills	F3 A1c - Advise on the use of sustainability and integrated reporting
	Recommend approach to implementation of new system	Leadership skills	E3 C1b - evaluate the role of leadership in managing the change process
Section 3	Advise on implication of introducing a third party shareholder	Technical skills	F3 A1a - Advise on the overall strategic financial and non-financial objectives of different types of entities
	Recommend exist strategies	Business skills	F3 C3b - evaluate post-transaction issues
	Evaluate proposal for internal control system	People skills	P3 C1a - evaluate the appropriateness of control systems for the management of an organisation
	Recommend internal audit approach	Leadership skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations

Comments on performance

Overall candidate performance

Overall, candidate performance was reasonably good across the variant. Answers were generally valid, but could often have been developed a little further.

Section 1

This section deals with concerns about animal welfare and the potential loss of sales because of allegations of animal cruelty. The first task asks how the supermarkets who buy the entity's milk might help to support the company's reputation after a damaging news report. The second task deals with the prevention of intrusions by impostors who wish to harm the company further.

Recommendations for support

Candidates generally offered sensible arguments concerning the ways in which the supermarkets might support the entity. Many scripts could have been a little better developed, perhaps by thinking more about what the supermarkets know and can actually say in this context.

Prevention of imposters

Answers to the second requirement were generally sound, although some candidates had rather unrealistic expectations as to what would be possible. Also a significant minority of scripts simply discussed recruitment practices in very general terms.

Section 2

This task deals with the issues associated with social responsibility. The first requirement asks about disclosures that might appear in a CSR report and the second with improvements to the company's husbandry of its cattle.

Disclosures in CSR report

Candidates generally answered the first requirement well, with a good discussion of the points that might be made in a report.

Acceptance of Code of Practice

Answers to the second part were often a little under-developed. The basic issue is that it will often be difficult for the Board to encourage employees to buy into the changes that may be necessary to enhance the business. Such changes in attitude are often important elements of the enhancement of new strategies.

Section 3

The final task deals generally with the issues associated with the introduction of an external shareholder to a family business. The first requirement asks for the issues and the second for the possible exist strategies that might be put in place in case things do not work out. The third requirement asks about the challenges of using the new shareholder's approach as a control system for managing animal welfare and the fourth with the role that internal audit might play.

Implications of external shareholder

Answers to the first requirement were surprisingly weak. Candidates were not particularly aware of the impact of introducing a new shareholder into a tight-knit family business.

Exit strategy

The second requirement was answered a little more effectively, although some candidates were a little unrealistic as to how easy it would be to unwind this arrangement. It wouldn't necessarily be a simple matter to use cash to pay the new shareholder to surrender his shares and leave, which was a fairly common suggestion.

Challenges of adopting practices

The third requirement was answered reasonably well. Candidates took a variety of approaches, all of which were rewarded provided they were relevant. One disappointing element of this was the fact that very few candidates mentioned the potential for rivalry created by incorporating a neighbouring farm and imposing its practices on staff.

Role of internal auditor

The fourth requirement was generally answered well, with candidates demonstrating an understanding of the role of internal audit.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Evaluate the sustainability issues associated with a switch to organic farming methods	People skills	E3 A1c - discuss the drivers of external demands for environmental sustainability and corporate social responsibility and the organisation's response
	Evaluate strategic risks	Business skills	P3 A1b - Evaluate the organisation's ability to bear identified risks
Section 2	Evaluate impact on natural capital	Technical skills	F3 A1c - Advise on the use of sustainability and integrated reporting to inform stakeholders of relevant information concerning the interaction of a business with society and the natural environment
	Recommend response to staff resistance to major change	Leadership skills	E3 C2a - Evaluate tools, techniques and strategies for managing and leading the change process
Section 3	Recommend valuation approach to potential target	Business skills	F3 C2a - calculate the value of a whole entity
	Evaluate potential post-acquisition problems	Leadership skills	F3 C3b - evaluate post-transaction issues
	Discuss risks associated with proposed investment	Technical skills	P3 D1a - Evaluate financial risks facing an organisation
	Evaluate objectives of a family company	People skills	P3 E1b - evaluate conflicts that may arise from capital investment decisions

Comments on performance

Overall

Many candidates provided good responses to this variant, and there were few very weak or incomplete scripts.

Section 1

Section 1 presented the candidate with the scenario that ADF was considering moving to organic farming. They were asked to discuss whether organic farming was a sustainable and responsible strategic direction for ADF to follow, and to evaluate the strategic risks arising from the proposed change.

Sustainability of organic strategy

Most candidates provided a good assessment of the advantages of this strategy, but relatively few identified drawbacks, with most seeing only advantages. Some weaker scripts repeated back the information supplied in the case study material and did not provide further development or analysis.

Strategic risks of switch to organic

Most candidates correctly identified risks, but the extent to which they developed them and provided evaluation was variable. Some provided lists of risks with no further comment. Better scripts included a smaller number of selected risks with evaluation of them.

Section 2

In Section 2 candidates were asked to discuss the quantitative and qualitative measures which could be used in a report in order to measure ADF's impact on natural capital. The requirement was specific- suggestions for disclosures and justifications for them.

Candidates were also asked to make suggestions for how to address the concerns of staff who were resistant to the change.

Report on natural capital

Performance in this section was very variable. Some candidates showed a clear knowledge of the relevant natural capital elements applicable to the case study. Others clearly had little knowledge of this subject. Many candidates showed confusion about the distinction between qualitative and quantitative.

Addressing the concerns of staff

Some candidates addressed this requirement well, but many responded with theoretical models which were not tailored to the specifics of the case study.

Section 3

Candidates were asked to address four separate issues:

To advise on how to value Taverner's Bottling

Some candidates addressed this requirement very well, but many gave a description of each possible valuation model without relating them to the case study or making a recommendation.

To advise on whether there will be challenges to integrating the two businesses.

Generally speaking, challenges to integration were identified but fewer candidates expanded their answers to include suggestions as to how the challenges could be addressed.

To explain how ADF should allow for risk in deciding whether to invest in Taverner's Bottling

The question here was quite specific, and whilst some candidates did well many just identified some risks, and did not really answer the question by explaining how risk should be allowed for. Risks identified tended to be quite general ones.

To advise on whether making profits or preserving wealth is more important for the owners of the family business

Whilst most candidates attempted this section many answers were too brief to provide any depth of discussion or exploration of the issues, comments tended to be quite simplistic.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Recommend response to changing relationship with stakeholder	Business skills	E3 A1d - recommend how to build and manage strategic relationships with stakeholders
	Advise on the ethical implications of proposed change	People skills	P3 B2a - evaluate the risks of unethical behaviour
Section 2	Recommend valuation of a potential acquisition	Technical skills	F3 C2a - Calculate the value of a whole entity, a subsidiary entity or a division
	Address problem with stakeholder behaviour	Leadership skills	P3 B1b - recommend solution for the risk of dysfunctional behaviour arising from the associated models of performance measurement
Section 3	Recommend forecasting approach	Business skills	E3 B2a - Evaluate strategic analysis tools
	Recommend approach to development of strategic options	Leadership skills	E3 B1a - Evaluate the processes of strategic analysis and strategic options generation
	Recommend strategy for dealing with acquisition's borrowing	Technical skills	F3 B1b - evaluate and compare alternative methods of raising long term debt finance
	Advise on potential exit strategies for acquisition	People skills	F3 C3b - evaluate post-transaction issues

Comments on performance

In general successful candidates only just passed this variant because they did not apply their solutions to the case study. There were few high marks.

Section 1

Commercial implications

Candidates should have thought laterally about the implications. These went beyond the basic fact that profits were being foregone. For example, there could have been merit in having a new outlet provided the pricing could be sorted. There was also the threat to staff morale if various employees' household incomes were tied to the success of the cheese business. Few candidates thought about the implications of the question or applied their solution to the problem.

Ethical implications

The basic dilemma that we had in the scenario was that ADF had made a verbal promise to sell the milk at a discount. It could be argued that the promise cannot be considered binding because circumstances have changed since the promise was made.

While it may be argued that the directors have a responsibility to the business, they also own 90% of the company and so they can, if they wish, gift products to anyone without exceeding their responsibility.

Again there were a few good answers to this question which also discussed the CIMA code of ethical principles. There were many who did not really think about the problem or relate it to any of the ethical guidelines.

Section 2

Valuation

Candidates should have allowed for the nature of the business that was being acquired.

There could have been some cross-over between the valuation of the business and of the consideration. There could also be have been some discussion of the value of the consideration to Louise, which may be affected by the delayed receipt and the risk. Few candidates really discussed these issues. Many gave a generic answer about valuation methods which was not applied very well to the case. Candidates did pass this requirement but there were few high marks due to lack of application.

Inappropriate behaviour

The problem which arose from the scenario is that Louise had already demonstrated that she could start a cheese making business from scratch and she could do so again. She may not necessarily have a great incentive to maximise the value of Wellchester because she could find other ways to exploit her skills and reputation.

Recommended responses to dysfunctional behaviour should have been realistic solutions to the problem. Few candidates gave realistic solutions to the problem. Again there were far too many generic solutions and few candidates applied their solutions to the case.

Section 3

This task was essentially two pairs of linked requirements.

Forecast

The methods described ought to be relevant to the specific problem arising from the forecasting issues. This is a new business, which has experienced significant growth in the past. But the market is well established and it is not necessarily clear how trends might be extrapolated. Many candidates just discussed forecasting with no application to the case. When candidates did consider the business they were awarded high marks. Candidates should always apply the solution to the information given in the case study and the pre-seen material.

Strategic options

Candidates could have used a variety of approaches to answering this question. Again candidates did not always apply their answers to the case. The strategic options may not have any value unless ADF takes steps to secure them, such as by registering trademarks. Few candidates mentioned this in their answer.

Bank loan

Candidates should have considered the implications of the different circumstances of ADF and Wellchester. The two companies are at different stages of development and have differing scope for offering security, so it is unlikely to benefit the merged entity to leave the existing loan in place. Again few candidates discussed this, many merely discussed the merits of using existing funding. The marks were reasonable for this question.

Exit strategies

Candidates should have considered the nature of the scenario and the respective possibilities associated with the strategies that they suggest. Many candidates just suggested a strategy and did not really go into this in much depth or suggested five or six possible exit strategies without any further justification. Marks were not particularly high for this section because of this.

Tips for future candidates

It is obvious that candidates must read the questions carefully and answer what is asked. 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 should always apply their solutions to the case study and pre-seen information.

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.