

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

General comments

This exam was based on a pre-seen scenario which described a company in the luxury watch industry. The scenario was made available in advance of the exam and a number of variant exams were set, each offering additional scenario-based information and each setting three sections to be completed. Each section was split into two or three specific requirements. 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.

Performance overall was reasonably good for many candidates. There were several weak areas which candidates must improve on in the future. As in previous exams, ethics again was one poor area, the other was finance where the lack of ability was surprising.

Generally, performance was quite good with some really good scripts, which was encouraging and reassuring. However, many were very 'patchy' and, as usual, the F Pillar elements were pretty poorly answered. Another weakness was that application was often poor. Some candidates seem to be completely ignoring the reference material exhibits which accompany the requirements. This is really hindering candidates. In a number of sections, had they actually read the reference materials, it would have been very useful and would have assisted them in formulating their answers, but it was quite apparent that many had not taken the trouble to read them. Candidates are losing marks by not paying attention to these exhibits and reading them carefully.

Most candidates now have 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 being asked and writing everything they knew on the topic concerned. Many candidates did apply their answers to the luxury watch industry which was good; however some candidates did not appear to be familiar with the pre-seen material at all, as if they did not realise its importance.

In most of the requirements 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 not to know anything about the industry.

Most candidates answering the variants attempted all three sections and did not leave any sections unanswered.



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 read the exhibits which accompany most requirements carefully, failing to do so is costing candidates marks.

Candidates must manage their time well and make sure they do not run out of time on parts of 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 sufficient to have knowledge of topics alone, 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	Evaluate strategic options	Business skills	E3 B1b - recommend strategic options
	Explain implications of new venture for financial and non-financial performance measures	Leadership skills	F3 A1b - evaluate financial objectives of for-profit entities
Section 2	Recommend approach to overcoming barriers to entry	Technical skills	E3 E2b - evaluate the strategic and competitive impact of information systems
	Evaluate ethical issues	People skills	P3 A3a - evaluate ethical, social and environmental issues arising from risk management
Section 3	Explain the importance of market analysts	Technical skills	F3 C2a - calculate the value of a whole entity
	Evaluate risks of attempting to influence analysts	Leadership skills	F3 C2a - calculate the value of a whole entity
	Evaluate implications of a fall in share price for the cost of capital	Business skills	P3 E1a - evaluate investment projects
	Discuss conflict between long-term and short-term profit	People skills	P3 E1b - evaluate conflicts that may arise from capital investment decisions

Comments on performance

Section 1

Part 1

A good answer should have identified the potential avenues that might be opened up in terms of strategic options. Answers should also have expressed some caution because there may be problems associated with entering this market and this may not offer any lasting benefit. There were some very good answers but also some which did not consider any of the downside.

Part 2

This part required the candidate to identify suitable financial and non-financial objectives. For a quoted company the financial objectives are likely to be primarily associated with the maximisation of shareholder wealth. Non-financial objectives would consider the company's business from the perspective of other important stakeholders. Candidates were free to discuss any such objectives that they could make relevant.

A good answer should have reflected the nature of the business and its circumstances. It is not enough simply to have identified generic objectives. The main problem with answers to this part of the section was that they were too generic.

Generally, in regard to this section, it appeared that candidates had not read any of the reference material exhibits, which was a pity as these contain valuable information and answers could have been much improved.

Section 2

Part 1

This question required a reasoned and realistic understanding of the barriers to entry for this business venture. Candidates were free to read the scenario and to identify any barriers that they deemed relevant, but they should not have simply listed generic barriers to entry without at least explaining why they relate to the scenario. Unfortunately many candidates just listed all generic barriers to entry, even ones that clearly did not apply to this case.

In a similar vein, the question asks for the use of IT to overcome these barriers. Again, candidates were not credited unless there was an IT element to the recommended response. Many candidates barely discussed the IT issues and scored poor marks.

Part 2

This question differed from the usual request to explain whether a particular action was or would be ethical/unethical. Candidates should have identified ethical problems and explained how they might be dealt with. Some candidates failed to recognise the ethical problems at all which was disappointing.

As always, it was acceptable to use any reasonable basis for the identification of an ethical dilemma. While it was acceptable to use the CIMA Code, it is by no means the only method of highlighting a problem.

Again candidates should have read the exhibits more closely and they would have produced much better answers.

Section 3

This task is essentially two pairs of linked requirements.

Part 1

Candidates should be able to take a step back from the EMH and explain how information is gathered and interpreted. It should be possible to develop an argument around the fact that analysts advise major investors and that their advice can drive the market forces. In general this part was answered well.

Part 2

Following on from the previous requirement, candidates should have offered a realistic appraisal of how the directors would motivate the analysts to pay attention. At the very least, there are reputational risks if the assurances made during the briefing are not delivered. There is also the likelihood that the directors will have to release some fresh information in order to interest the analysts.

There were some good answers to this part but also many where the candidates did not discuss the reputational risk at all.

Part 3

Candidates should link the cost of equity to the long-term equilibrium price for the shares. That is complicated because of the EMH, but there is no doubt that share prices can be affected by short-term speculative movements.

This part was answered quite badly by many candidates, mainly as many candidates did not discuss efficient markets or think that the share prices could be affected. They also could not justify their answer; just listed one or two points with no discussion, which does not gain high marks.



Part 4

Candidates should distinguish profit from ongoing shareholder wealth. This is complicated by the fact that profit is a reliable measure of performance that is updated regularly. This part was answered quite well by many candidates.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Evaluate risk	Leadership skills	P3 A1c - recommend responses to identified risks
	Evaluate product portfolio	Business skills	E3 B2b - recommend how to manage the product portfolio of an organisation to support the organisation's strategic goals
Section 2	Manage political risk	People skills	E3 A1b - recommend approaches to business/government relations and to relations with society
	Manage a hostile bid	Technical skills	F3 C3a - evaluate alternative pricing structures and bid process including taxation implications
Section 3	Evaluate the effectiveness of creating a risk committee	Leadership skills	P3 B3a - Evaluate the risks associated with poor governance structures
	Discuss the implications of a risk committee for shareholder confidence	People skills	P3 B3a - Evaluate the risks associated with poor governance structures
	Explain whether the risk committee will focus on systematic or unsystematic risk	Technical skills	F3 C2a - systematic and unsystematic risk and EMH
	Explain whether the creation of a risk committee will affect the share price	Business skills	F3 C2a - systematic and unsystematic risk and EMH

Comments on performance

Section 1

This section was attempted fairly well by many candidates.

Part 1

On assessing the risks, most candidates recognised the potential damage to Steelcasts brand and reputation and the overall implications this could have on long term profit. Some candidates incorrectly took a theoretical approach to answering this question, discussing the TARA framework with limited application. Mitigation was also often missed in answers, although those that considered mitigation did so reasonably well and provided good application. Candidates need to read the question.

Part 2

The second element, relating to being complacent was not attempted quite so well. Many gave purely one sided answers: either they have been complacent or they have not. Most answers were not well balanced and many purely focused on advice to increase the portfolio, rather than assessing the current portfolio.

Section 2

Part 1

The first part of this task was generally not well answered. Many candidates misunderstood the requirement, and answered it from the perspective of the Hiland government. The question was very clear which suggests it was may not have been read properly and answers were rushed. Alternatively, candidates merely discussed the factors which Steelcast itself should consider before re-locating, with little or no reference to the Wayland government perspective at all. Most of those candidates that did address the factors which may persuade the Wayland government did in fact present good answers to this part of the task.

Part 2

The second part was reasonably well answered. Many candidates presented a good and well applied range of arguments that directors of Makke could put forward to its owner. Some were more realistic and well thought out than others, but in general most candidates presented a good range of largely relevant points in answer to this part of the task. One weakness was that some

candidates did not fully read the requirement and therefore failed to address the issue of how Steelcast should respond. Candidates must make sure they read the whole requirement and answer every aspect.

Section 3

This section was answered well by most candidates and this was where many gained good marks.

Part 1

This was well answered. Most candidates' answers were well focused on the impact on governance of a risk committee and most recognised the current weakness of not having a risk committee. There was generally a good level of application in this answer.

Part 2

This part was generally a little thin, with many answers going little further than saying 'yes, confidence will increase' but not really elaborating a great deal more. However, good answers considered both sides of the argument and argued the case for increased/decreased. These answers scored well.

Part 3

The answers to this part of the task were very mixed. Those that clearly knew it, did well on this part with sound arguments for both a focus on systematic and unsystematic risks. Poor answers largely demonstrated a real lack of knowledge.

Part 4

Largely answered well, although some candidates were rather too enthusiastic that share price would be massively affected, which is highly unlikely. However, there were many sound and well-reasoned discussions on why the share price might be affected (both positively and negatively).

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on management of product portfolio	Business skills	E3 B2b - recommend how to manage the product portfolio of an organisation to support the organisation's strategic goals
	Explain implications of a movement in the share price	Leadership skills	F3 C2a - calculate the value of a whole entity (quoted or unquoted), a subsidiary entity or division using a range of methods including taxation
Task 2	Advise on the development of a strategic alliance	People skills	E3 A1d - recommend how to build and manage strategic relationships
	Recommend a strategy for the management of currency risks	Technical skills	P3 D2b - evaluate appropriate methods for the identification and management of financial risks associated with international organisations
Task 3	Discuss the extension of Corporate Social Responsibility reporting	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 and society and the natural environment
	Advise on the acquisition of two luxury cars	Leadership skills	P3 B3a - evaluate the risks associated with poor governance structures
	Evaluate the impact of shareholder product discounts on share price	People skills	F3 B2a - evaluate alternatives to cash dividends and their impact on shareholders wealth and entity performance measures
	Evaluate the ethical implications of board members accepting corporate gifts	Business skills	P3 A3a evaluate ethical, social and environmental issues arising from risk management

Comments on performance

Section 1

Part 1

Candidates generally understood the risks and benefits of entering into this arrangement. Answers generally picked up the commercial implications of licensing out the brand name. The only common issue was that many candidates saw the commission paid to the brand management company as a problem. That argument was rarely justified, e.g. by suggesting that Steelcast could probably arrange its own deals and avoid the royalty.

Part 2

Answers to the second requirement were not quite as consistent. There was often a lack of understanding of the market's ability to predict the value of a project. It is also possible that there was only a slight increase because the market had already predicted the possibility of such an additional revenue stream.

Section 2

Part 1

Answers to the first requirement varied in quality. Some candidates understood the idea that both parties had to collaborate in order to identify and exploit the opportunities created by this form of arrangement. Others offered only vague suggestions. The key in this case was to have understood that Steelcast is essentially selling an image. The image associated with the Steelcast brand could translate to other products.

Part 2

Answers to the second part varied according to whether candidates had a realistic understanding of the currency risks. Many candidates realised that Steelcast would be generating a stream of revenue in a foreign currency. This would require an efficient hedge that could offset the impact of currency movements in the long term. Those candidates generally suggested some form of internal hedge arrangement whereby Steelcast would attempt to offset the income with an expense denominated in the same currency. These answers varied in the detail, but they tended to offer a sound recommendation. Weaker answers listed financial instruments that might be used to mitigate short term movements, but that would have little real benefit in the longer term.

Section 3

This question had two pairs of requirements that were linked by a common thread. The first pair dealt with the implications of buying two copies of a high-performance luxury sports car. The second dealt with Steelcast's arrangement with a pen company.

Part 1

Answers to the first requirement often described Corporate Social Reporting rather than giving a direct answer to the question. Entering into this arrangement with the car company does link Steelcast to a product that could be seen as promoting excess and that lacks sustainability. Better answers focused on the manner in which Steelcast might both present and legitimate its actions.

Part 2

Answers relating to the proposal to buy two cars rather missed the point. The intention was that Steelcast would buy two cars, one of which would be used to promote the Steelcast brand and the other would be used as the CEO's company car. Even the second car could have some promotional value to Steelcast and so it was not necessarily an abuse of the company's resources. Many candidates answered on the basis that both cars would be taken by the Board.

Part 3

The discussion of the shareholder discount was generally answered quite badly. Steelcast intends to follow the practice of many companies in the real world by granting shareholders discounts on certain products. These discounts may be viewed as adding some value to the shares held. This raises the question of how that might interact with the share price. Many candidates wrote about the cost to Steelcast of providing these discounts, which was unlikely to be material.

Part 4

Answers to the final part were generally quite good. Most candidates saw that there was an ethical issue associated with accepting these pens. Better answers tended to evaluate that risk in terms of the value of the pens to the directors and tended to argue that it was a reasonable and proportionate gift.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate economic variables that might affect product demand	Business skills	F3 A1b - evaluate financial objectives of for-profit entities
	Discuss ethical issues associated with influencing press	People skills	E3 A2a - evaluate ethical issues and their resolution within a range of organisational contexts
Task 2	Recommend required rate of return for project	Technical skills	P3 E1a - evaluate investment projects
	Identify success factors for sponsorship arrangement	Leadership skills	E3 B2a - evaluate strategic analysis tools
Task 3	Identify challenges to conducting internal audit investigation	Leadership skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations
	Recommend audit approach to be followed	Business skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations
	Evaluate impact on share price	Technical skills	F3 C2a - calculate the value of a whole entity (quoted or unquoted), a subsidiary entity or division using a range of methods including taxation
	Evaluate implications of publishing audit report for share price	People skills	F3 C2a - calculate the value of a whole entity (quoted or unquoted), a subsidiary entity or division using a range of methods including taxation

Comments on performance

Section 1

Part 1

Better candidates did very well in the first part. The negative economic and business variables affecting demand, such as interest and currency rates with the consequent impacts, together with the impact of culture linked to anti-corruption laws, were generally well identified.

Weaker answers focused too much on the impact of the television programme and did not really explore economic variables as required. Some explored everything which might affect demand, such as customer complaints, and did not concentrate on economic variables.

Part 2

Although again there were some good responses to the second part of this section, many candidates failed to consider or apply CIMA's code of Ethics to the ethical issues associated with Steelcast threatening to stop advertising in Boris Media magazines and again dwelt on the adverse effect of Boris Media's show. The code of ethics provided a good structure for an appropriate answer in this section and candidates who used this often produced good answers.

Section 2

Part 1

Whilst there were some very good answers for the first part, many completely ignored the issue of risk, and only discussed the impact of changes in the proportions of debt and equity. Some also discussed much more widely the problems associated with appraising the proposal to sponsor the team, providing general instructions on how an appraisal should be carried out and focusing on difficulties with forecasting cash flows etc. with only a brief mention of the cost of capital.

Part 2

Answers to the second part were very variable, but the success factors of publicity within Formula 1 and its impact on Steelcast's brand was often well explained, together with the need for a detailed contract covering potential risks and the inclusion of an exit plan.



Section 3

Section 3 had four elements.

Part 1

Candidates were asked to identify the specific challenges faced by the Head of Internal Audit in conducting an investigation into the actions of Alain Trubb. This was often well answered, with independence issues and the potential difficulty in gaining relevant answers and information well explained.

Part 2

Candidates were next asked to recommend the work which the internal audit team should undertake. Some answered this very well, although weaker answers were often very poor and lacked specific relevant detail to the case, describing the overall plan, approach and reporting in very general terms.

Part 3

Candidates were then asked whether concerns that Alain had acted improperly could affect the share price. This was often well answered, many candidates made links to market efficiency and explained the issues with clarity.

Part 4

Finally, candidates were asked whether publishing the internal audit report would protect the share price. Many did well in this part, giving balanced arguments for and against this.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Section 1	Evaluate ethical claims	People skills	E3 A2a - evaluate ethical issues and their resolution within a range of organisational contexts
	Evaluate arguments for and against director resignation	Leadership skills	P3 B3a - evaluate the risks associated with poor governance structures
Section 2	Advise on share exchange	Technical skills	F3 C3a - evaluate alternative pricing structures and bid process including taxation implications
	Evaluate currency risks	Business skills	P3 D1a - evaluate financial risks facing an organisation
Section 3	Advise on achieving synergies post acquisition	Leadership skills	F3 C3b - evaluate post transaction issues
	Recommend communication to analysts	Technical skills	F3 C2a - calculate the value of a whole entity (quoted or unquoted), a subsidiary entity or division using a range of methods including taxation
	Advise on integration of IS systems	Business skills	E3 E2a - evaluate the IS required to sustain the organisation
	Recommend integration strategy	People skills	E3 E2b - advise managers on the development of strategies for knowledge management

Comments on performance

Section 1

Overall this section was performed fairly well.

Part 1

Is the advert ethical? Candidates on the whole concluded that while the advert could be seen to be presenting the facts in a rather biased fashion, there were few grounds to declare it wholly unethical. Many candidates picked on the fact that it is counter to advertising standards to cast aspersions on competitive products in advertising. However while there had been presentations of facts these had not necessarily been 100% disclosed and this along with the apparent attack on the competition led the majority of candidates to suggest that the campaign be immediately terminated. There were very few either excellent or extremely poor answers here.

The CIMA code of ethics was rarely mentioned which was disappointing.

Part 2

The second part received much more polarised treatment with a minority of the poorer candidates simply suggesting that the Marketing Director was at the very least incompetent to have let the advert through and calling for his resignation as a means to draw the whole incident to a close.

On the whole, the better candidates went on to give a better balanced argument; recognised this as a single incident in a long career, reflected that a resignation would be an admission of guilt and that Steelcast could suffer deeper reputational damage as a result. Good candidates agreed on a significant degree of guilt should be recognised internally and that lessons should be learned. There were many good answers here.

Section 2

Part 1

This part was not performed very well. Candidates on the whole considered the relative sizes of the two companies, but only the best recognised the need to account for the synergies expected between the two. Hardly any candidates offered anything more than the most rudimentary calculations with even fewer recognising the need to protect the deal via a conditional offer pending required take-

up. Likewise candidates seemed oblivious to the need for shareholder management through the process. There is fairly strong evidence that this material is not thoroughly covered by some tuition providers.

Part 2

In the second part of the section, regarding currency risk, was not answered well. Most candidates gave an accurate treatment of transactional risk, better candidates expended on a simple definition of translation risk to highlight that it is not one of real substance but rather a paper adjustment. However, very few gave anything more than a cursory view on economic risk. The better candidates picked up on the natural hedge that could be created by trading in the two currencies, reducing overall risk.

Section 3

This section was answered very well by most candidates.

Part 1

Candidates were very quick to recognise that Steelcast and Hantime play in different markets and that the resulting combination has the potential to be quite powerful in the market. Better candidates highlighted possible motivational aspects for the specialist Steelcast engineers and potential tarnishing of the elite image.

Part 2

Candidates were poor at identifying how the rumours might be started but on the whole gave an excellent account of how to feed the analysts with the correct type of information to ensure that the best possible image of future direction is given.

Part 3

On the potential problems for the integration of the systems, most candidates focused on the duplication of cost and the complexity of running two systems. However there were a number who went on to discuss and consider means of eliminating immediate communication problems between the companies to recognising the potential benefits of an integrated system.

Part 4

Again the better students recognised the need for a two party steering committee process and highlighted that Hantime may in fact have stronger candidates here than Steelcast.