

## TOPCIMA – September 2009 – Post Exam Guidance report

### General Overview

The main purpose of this report is to give help to candidates who were not successful in the September 2009 examination of the V outsourcing case. It is also intended to provide guidance to prospective candidates who plan to take future TOPCIMA examinations. This report explains the basic rationale behind the case and the suggested approach to each of the assessment criteria. It also provides a brief marking guide, general comments by the Examiner and a statement of common errors, including omissions, which were made by candidates.

This case was concerned with V, an outsourcing service provider and part of a conglomerate group, Z. V was based in Cee, an Asian country and had been in business for 5 years. At the time of the unseen material, V only provided business process outsourcing (BPO) services. It achieved a profit of \$939 million in 2008/9 on a turnover of \$3,789 million. Funding for V mainly came from equity. Dividend payments were set low to allow the build up of cash to allow V to expand. V had 3 major clients, being E (based in Europe, for which V carried out routine processing work on medical records), A (based in Cee for which V processed payroll, invoicing and creditor payments) and S (a bank, based in the United States of America for which V provided a call centre service). V had also established 3 corporate social responsibility aims being:

- Satisfy its customers completely in the service it provides.
- Improve its competitive position by developing the economy of the local communities in which V works.
- Ensure that its employees are appropriately qualified and to provide training for its staff so that they achieve the range of skills required to meet the challenges of its dynamic business environment

The candidate was asked to prepare a report that prioritised, analysed, and evaluated the issues facing V and to make appropriate recommendations.

The TOPCIMA assessment matrix has 9 criteria, each of which carries between 5 and 20 marks. It is important that the candidate earns high marks in the Judgement and Logic criteria as each of these carry 20 marks. It is also important that the candidate undertakes sufficient analysis to provide a sound base for discussion of the issues from which appropriate and logical recommendations can be made. The analysis should include appropriate financial and numerical calculations particularly those which are discernable from the unseen examination material.

The main issues contained in the unseen material covered the areas of:

1. Pressure from Z, V's parent company, to increase profitability. This included a review of V's client account profitability;
2. Inaccurate processing of some of client E's work;
3. Review of the strategic approaches which were contained in the unseen material;
4. Staff turnover at V;
5. Complaints relating to the call centre service for client S

There were other areas which candidates could have discussed (and which were given credit in the marking) but it was critical that the issues relating to the pressure from Z, including an assessment of client profitability, the inaccurate processing of some of client E's work and the strategic approaches were high on the list of priorities. It was expected that candidates would provide a critique of the method of costing applied by V within the discussion of the pressure applied by Z. It was essential that V had a clear understanding of the profit generated by each of its 3 main clients. While the unseen material provided an alternative approach to absorbing overheads from that applied by the management accountant, this was not sufficiently sophisticated to enable V to have confidence in the resulting client profitability calculations. It was expected that candidates would have made recommendations on this most fundamental issue for management accountants of how the overheads should be addressed in determining client profitability.

### **Format of answers**

The format of candidates' answers was generally good. Candidates generally began with an introduction leading to very brief terms of reference, prioritisation of issues, followed by discussion of those issues. Ethical issues were then discussed and then recommendations were made on the issues which had been prioritised. Finally, most candidates provided a brief conclusion. The appendices were usually contained in an Excel file, although some were shown in the Word document. Either way is acceptable. One point worthy of note is that some candidates waste time producing a Position Audit which discusses the contents of the appendices. A position audit is not required in the examination. It is better that candidates reserve their comments for the main discussion section of their report.

### **Discussion of general candidate performance under each assessment criteria**

#### **TOPCIMA Assessment Criteria**

|                                      | <b>Maximum marks available</b> |
|--------------------------------------|--------------------------------|
| <b>Analysis of Issues (25 marks)</b> |                                |
| Technical                            | 5                              |
| Application                          | 15                             |
| Diversity                            | 5                              |
| <b>Strategic Choices (40 marks)</b>  |                                |
| Focus                                | 5                              |
| Prioritisation                       | 10                             |
| Judgement                            | 20                             |
| Ethics                               | 5                              |
| <b>Recommendations (35 marks)</b>    |                                |
| Logic                                | 20                             |
| Integration                          | 10                             |
| Ethics                               | 5                              |

#### **Analysis of issues**

##### **Technical:**

Rationale:

The purpose of this criterion is to assess the use of relevant theoretical techniques and frameworks and the performance of calculations to aid the analysis of the case material.

Suggested Approach:

It is recommended that candidates present their technical knowledge in the form of appendices to the main report either in an Excel spread sheet or at the end of the report itself. Some candidates chose to present their appendices at the beginning of the report. This is not penalised in the marking but would be an unusual way of presenting a management report.

Marking Guide:

Marks are awarded for technical models and theories which are relevant to the case. It is usually appropriate to limit the technical knowledge displayed to 5 separate items.

Examiner's comments:

Most candidates were able to display sound technical knowledge principally comprising a SWOT analysis, a Mendelow matrix and a range of strategic planning approaches including stakeholder models and motivation theories, including Maslow and Herzberg. This was appropriate in this case study and well received. As usual, most candidates performed well under this criterion.

Common errors:

Very few errors were made under this criterion. However, given the subject matter it was surprising how many candidates failed to recognise within the SWOT analysis the threat posed by Z selling off V or of V losing valuable clients. It appears that many candidates still use a "favourite" model irrespective of how relevant it actually is to the case.

### **Application:**

Rationale:

The point of the Application criterion is to assess how well candidates use the techniques, frameworks and calculations to support the analysis of the issues and recommended actions.

Suggested approach:

Candidates are advised to ensure that they apply relevant models, techniques and frameworks correctly, given the case material. Thus it is important that rather than just regurgitating the model or framework, it is presented in such a way so that it conveys information which is relevant to the case. This also applies in respect of calculations, which should also be relevant to the information given in the particular case.

Marking guide:

Marks are awarded for the relevant application of techniques, models, frameworks and supporting calculations but only if the candidate applies them to the specific

case. Marks were awarded for the application of models to the case material and for relevant calculations including those not mentioned above. Candidates who carried out sufficient numerical analysis were well rewarded as there were a lot of marks available. There was a lot of scope in this case to obtain high marks under Application if candidates had grasped the opportunity.

Examiner's comments:

Most candidates provided a SWOT analysis and most recognised the power exerted by Z although often this was not shown as a threat to V. The most disappointing feature was the number of candidates who did not attempt any calculations, despite being asked to do so in the unseen material. The unseen material clearly states that the Finance Director "has asked you, the consultant, to provide a brief statement on the operating profit earned in 2008/9 from clients E, A and S. He is concerned about the current approach used to assess client profitability and wants you to check the validity of the profit calculated by the management accountant...." It seems self evident that if a consultant fails to do as asked by the Finance Director, his or her report will lose credibility. A further concern was the number of candidates who did not attempt the NPV calculation for the second Strategic Approach. It at least demonstrates ignorance, or even arrogance, for a consultant to make statements in the report relating to the client profitability or the strategic direction without taking the trouble to carry out the supporting fundamental numerical analysis. Such consultants could be regarded as offering dangerous commentary and advice. Thus, candidates who failed to make any attempt at these straight forward calculations were disadvantaging themselves to begin with, especially when they commented on the profit calculations provided by the management accountant as if they were accurate.

Common errors:

The most common errors related to mis-calculation of the client profitability. In the main however, such errors were accepted as being a result of examination room pressure, which would not exist (hopefully) in a real situation. Therefore, some credit was given even if the calculation was not completely correct. Many candidates failed to increase the calls handled for client S by 20% in arriving at their split of the remaining 70% of overheads between clients S and A. A further, and more worrying concern, was the number of candidates who failed to correctly calculate the cost of capital for Strategic Approach 2 – the joint venture. This required the simplest application of the capital asset pricing model, a formula which is provided at the end of the paper under the heading "Applicable Maths Tables and Formulae". There were not even any de-gearing implications in this case. It was also a matter of concern that candidates were unable to work out the net present value accurately. Frequently candidates applied the total investment cost of \$1,700 million per year, i.e. \$850 million per partner, against the cash inflow for just V, i.e. half \$1,800 million or vice versa. Many candidates were unable to work out the number of years for the joint venture and it was surprising how placed the initial cash outflow in year 1 rather than year 0.

**Diversity:**

Rationale:

This criterion seeks to assess knowledge and understanding of relevant real life situations in the same or similar context as that in which the case is set. It also assesses the recognition of commercial or organisational issues relevant to the situation contained in the case whether or not they occur within the same industry.

Suggested approach:

Candidates should seek to introduce relevant examples at the point where they discuss the issue in the answer. Typically, this may occur in the introduction, the prioritisation section, discussion of the issues, ethics or within the recommendations. There is no hard and fast way of doing this. The main point is that candidates should seek to bring in the relevant example at the point which enables them to elaborate or emphasise the issue which is being considered within the answer.

Marking guide:

Essentially, there is one mark available for each relevant example given. It is possible to quote the same organisation more than once if the example supports a different point.

Examiner's comments:

This was well addressed by most candidates as there were many good, appropriate and relevant real life examples. These included references to many organisations which provide outsourcing services or which outsource some of their own activities to vendors.

Common errors:

There were few errors as such. The one main suggestion to candidates would be not to overdo it. Giving strings of examples which illustrate the same point is a waste of time as markers will only give credit for a single example which relates to the issue being considered and discussed.

### **Strategic choices**

**Focus:**

Rationale:

This criterion requires candidates to select the issues that are regarded as the most important and which will be discussed further within the answer.

Suggested approach:

This is not a section of the report as such. Marks are awarded based on the issues which are contained and discussed within the report.

Marking guide:

There are five marks available for this criterion and it is normal that one mark is awarded for recognition of each relevant issue discussed.

Examiner's comments:

Most candidates were able to identify five separate issues although some did present the same issue under different headings, for example Strategic Approaches 1, 2 and 3 occasionally appeared under three different headings. Credit would only be given once where this occurred. "Pressure on V" and "Client Account Profitability" were

interchangeable and credit was given for either heading, providing the discussion did actually relate to the pressure exerted by Z on V and / or review of the management accounting system, in particular the overhead absorption method.

Common errors:

There were no common errors associated with this criterion which, as usual, was well handled by candidates.

### **Prioritisation:**

Rationale:

Under this criterion, the candidate is required to rank the issues and to state clearly and concisely the justification for that ranking. The ranking should reflect the impact of the issues on the particular case, which may include its urgency.

Suggested approach:

The priorities should be presented early in the answer under their own heading. The priorities should be set out with the issues ranked as either 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> etc. Each should be justified with a concise explanation of its position.

Marking guide:

High marks are awarded if the candidate presents the most important issues with a good rationale as to why they are ranked as main priorities. Marks are then cascaded down in accordance with the priorities provided along with their rationale. The main priority related to the pressure being exerted by Z on V. As mentioned above, this could have encompassed a review of client account profitability. This would be very important in determining the profit earned from each client and ascertaining whether or not some work should be re-tendered for. In addition, the errors occurring with respect to client E and the Strategic Approaches were regarded as important and it was considered that these should have featured in a high priority position.

Examiner's comments:

On the whole, candidates are now well versed in producing their rankings and generally manage to present five issues which has become the norm. It was understandable why candidates might list client S in a high position in the priorities, especially if they had carried out the re-calculation of profit correctly. However, this was not as urgent as some of the other issues because the contract had nearly 18 months to run. Nevertheless, the cost of servicing the contract, or rather the overheads apportioned to it, were in urgent need of review.

Common errors:

Many candidates failed to recognise the importance and urgency of resolving the errors being made in respect of client E and some failed to rank Strategic Approaches in a sufficiently high position.

### **Judgement:**

Rationale:

This criterion assesses the candidate's exercise of commercial and professional judgement in discussing the key issues which were prioritised.

Suggested approach:

It is important that the candidate discusses the impact the prioritised issues have on the organisation and what alternative actions, with reasons, could be taken to address them. This should include relevant supporting analysis drawn from the "Application" criterion. So for example, if a calculation is made within an appendix, then it should be used in support of the point being made in this section of the report.

Marking guide:

Marks are awarded for discussing the different aspects of an issue and also for providing appropriate alternative approaches to resolving it. Clearly, the alternative approaches will receive higher marks if they are accompanied with a cogent rationale as to why they are being put forward. It is quite acceptable for candidates to present "straw men" in putting forward an approach and then to explain why these would not be appropriate or realistic. So, for example, stating that V could ignore the pressure from Z was inappropriate given Z's power as a 90% shareholder of V.

Examiner's comments:

The point above under the "suggested approach" is very important. The candidate should appreciate that good analysis is the key to sensible commentary in Judgement. In most instances, the numerical analysis should support the case the candidate discusses under the Judgement criterion. Without sufficient analysis, the candidate is likely to make shallow remarks which cannot be substantiated. For example, failure to re-calculate the profit for each client, in accordance with the requirements of the Finance Director can only lead to superficial commentary. The profit distribution changed dramatically as a result of this re-apportionment of overheads. The method put forward by the Finance Director was by no means robust and time should have been spent in suggesting how the overheads might be better dealt with. This would clearly be expected from a recently qualified Chartered Management Accountant. Similarly, it is worrying that candidates at the final stage of their professional qualification are unable to carry out a straight forward capital investment appraisal calculation. Also troubling was the number of candidates who after making such calculations, often to a high standard, then declined to use the information they had produced in support of their argument. As a final comment on this section, candidates should not rely too much on pre-learned material. Ansoff's Growth Vector matrix was regularly cited and while it is a useful framework on which to present an answer relating to strategic growth, it should be applied to the information contained in the unseen material. There are few marks for candidates simply reeling off some verbose superficial comments on a generic level without relating them practically to the case itself. If V is to carry out some market penetration or product development, how might it do that? Would product development mean that V needs to increase its IT provision and capabilities (McFarlan's Grid) and position itself in order to take advantage of changing market demands?

Common errors:

The main errors are listed as follows:

- Failure to recognise the need for V to expand its client portfolio

- The insistence by some candidates that Z can manage V's operations. Z was the major shareholder of V, it does not manage V
- Failure to recognise that client profitability analysis does not affect the overall profit of V, but that a review will result in a re-distribution of the profit earned and should lead to a clearer recognition of the actual cost drivers, which may then be addressed with a view to increasing profit
- Failure to provide a critique of the costing system employed by the Finance Director
- Misunderstanding that a net present value means that the investment cost has already been taken into account, hence the use of the word "net"
- Failure to recognise the impact of processing errors for client E and the complaints relating to client S's work on V's own reputation
- Failure to recognise the need for V to liaise with both clients E and S on these issues
- The view of some candidates that the contract with client S could be abandoned without any repercussion on V
- The statement that the strategic approaches may be "financed out of retained earnings". Retained earnings are not the same thing as cash
- Repetition of the facts of the case, without commentary, adding no value at all
- Making reference to non-existent appendices, e.g. "see Appendix C" when Appendix C either does not exist or may only be a heading
- Preparation of calculations in appendices that were then not used or referenced in the main body of the report
- Over reliance on pre-learned material.

### **Ethics:**

Rationale:

The candidate is required to use judgement to highlight and analyse the ethical issues and state why these issues have ethical implications.

Suggested approach:

This section is normally coupled with the recommendations on how to resolve the ethical issues. It is perfectly acceptable to provide the answer in one section or it could be split over two as presented in the Assessment Criteria. The reason it is split in the Assessment Criteria is because the business issues usually have an ethical dimension associated with them. It is therefore appropriate for the ethical issues to be discussed alongside the business dimension. It is for the candidate to choose the method with which he or she feels most comfortable.

Marking guide:

Marks are awarded for recognising the ethical issue and then it is crucial to explain why it is considered to be an ethical issue.

Examiner's comments:

On the whole, candidates were able to identify the ethical issues. In this case they mainly comprised the inappropriate use of IT, the suspicion that financial inducements were being made to one of V's supervisors, the responsibility placed on V to ensure that proper training is carried out and the need to ensure that under age labour is not being employed on any of its contracts.

Common errors:

As is often the situation, many candidates did not address why the issue had an ethical implication for V. Some erroneous issues were raised including failure to recognise that the possibility of inducements being paid is one of policy and procedural failings by V. The actual staff member who was “suspected” of taking bribes was not the ethical issue in itself, the failure of V to produce a policy and issue procedures to staff is an ethical failing. Similarly, the ethical issue regarding misuse of IT is one relating to policy and procedure. Villagers seeking more lucrative work from other employers is also not an ethical issue for V as it is a free market in which they are engaged. Therefore, low pay by V or its sub-contractors becomes a business issue not an ethical issue when alternative employment and employers are available. Similarly, it is hard to understand why some candidates thought staff turnover at V was an ethical issue. It is clearly a business issue so why would some regard it as ethical? Some candidates were confused and thought that the village workers were direct employees of V. This is not so, they were sub-contracted employees. There was no CSR breaches mentioned in the unseen and therefore there was no ethical issue relating to this. A number of candidates had clearly come to the examination with a pre-prepared answer to the ethical issues based upon the pre-seen material relating to the CSR aims. Candidates are reminded that they must prepare a report based upon the material presented to them on the day not upon pre-prepared answers.

### **Recommendations**

#### **Logic:**

Rationale:

This criterion tests whether the candidate is able to make well-justified recommendations for each of the prioritised issues.

Suggested approach:

It is important that the candidate ensures that there is strong reasoning for the recommended course of action. The recommendations should follow on from the weight of arguments and choices of possible actions in a logical manner. There is no one absolutely correct way of presenting the recommendations. Most candidates present them towards the end of the report, which is completely acceptable. It is also acceptable to state the recommendations within the discussion part of the report under the Judgment criterion providing the recommendations are then summarised in their own section usually towards the end of the report.

Marking guide:

Marks are awarded not just for the recommendations themselves but also, crucially, for the rationale and strength of argument supporting them. Clearly the bulk of the marks available will relate to the main issues contained in the case.

Examiner's comments:

The recommendations made by candidates were generally weak. While most candidates provided recommendations, they were often not supported by an appropriate rationale, or any rationale at all. This should normally include an

explanation of the anticipated impact on the organisation if the recommendation is followed and a timescale within which it should be implemented. Failure to carry out sufficient analysis of the issues usually results in discussion which is weak and superficial leading to poor unjustified recommendations. A good example is the bald statement that V should opt for Strategic Approach 2 (joint venture) or 3 (acquisition) without stating why. There are good cogent arguments which can be made in support of either position, so stating one as against the other was not wrong. More entrepreneurial candidates proposed that V should be more bold and attempt to remove the limiting factor which creates the mutual exclusivity and do both. This was given credit providing the candidate then gave the rationale for this.

Common errors:

Frequently, the recommendations only repeated what had been suggested in the earlier discussion. That is acceptable to a point. However, if a range of alternatives are discussed under the Judgement criterion, the reason for the selection of one or two as recommendations should be clearly stated. It also seems that many candidates fail to allow sufficient time to present their recommendations. This can often lead to a sparse set of recommendations. This is a major consideration for candidates given that this criterion carries 20% of the available marks. The main areas where improvements could be made as well as those mentioned above were:

- Recognition that V needed to develop a much more robust management accounting system
- Recognition of the importance of Z and how V could engender greater support.
- Recognition that V needed to enhance its client relations especially for clients E and S
- Recognition that if the review of cost allocation demonstrates that the contract with client S is indeed loss making, it should be re-negotiated or terminated
- Recognition that V is dependent on the quality of its staff and supervisors and therefore proposals as to how improvements could be made in staff performance should have featured more

### **Integration:**

Rationale:

3 marks are available for the production of a well structured report in an appropriate format and linguistic style. The remaining 7 marks are for the overall functionality and quality of the report.

Suggested approach:

This is not a section of the report, but a holistic view of its entirety. As a guide therefore it is important that candidates present a report which is clear, sectionalised, addresses the main issues with good analysis and discussion and makes suitable recommendations based on the weight of evidence presented.

Marking guide:

The presentation elements are separated out and then up to 7 marks are available for the review of the structure of the report and critically, its fitness for purpose. The two elements of marks are awarded separately. Reports are deemed to be highly

professional, sound, satisfactory, inadequate or poor. The whole 7 marks are available for a highly professional report and 0 or 1 mark for a poor report.

Examiner's comments:

Most candidates achieved a good mark for the production of a well structured report in an appropriate format and linguistic style. The quality of the analysis, discussion and recommendations in the reports however was variable. Good answers tend to divide the report into the following distinct parts:

- Table of contents
- Brief terms of reference
- A brief introduction
- Prioritisation of the key strategic issues
- A detailed analysis of the issues
- Ethical issues (which may be in one section or split across the detailed analysis and the recommendations)
- Recommendations
- Appendices

It is important to effectively integrate the different parts of the report. So, for example, the recommendations should include the evidence base supporting them by reference to the earlier analysis which may be drawn from the main body of the report or the appendices.

A low mark will be awarded in Integration if the key issues are not properly addressed, or indeed are not discussed at all. Further, a low mark will apply in Integration if analysis is not sufficiently carried out, for example if the numerical analysis, requested by the Finance Director, was ignored or the discussion of the issues was vague and generally superficial in its nature and did not specifically relate to the unseen case material.

Common errors:

Some reports simply did not address the main issues and did not provide sufficient depth of analysis or reasoning behind the recommendations to warrant a high mark.

### **Ethics:**

Rationale:

This criterion judges candidates on their recommendations and reasoning for each of the ethical issues identified.

Suggested approach:

This section follows on from the identification and explanation of the ethical issues. It may either be contained in one complete section or split over two as presented in the Assessment Criteria.

Marking guide:

Marks are awarded for the quality of advice on the ethical issues raised.

Examiner's comments:

This was generally satisfactory and candidates tended to give sensible advice on the issues raised in the report. However, some candidates did not cover sufficient ethical issues. It is normally expected that at least 2 ethical issues will be discussed in the report.

Common errors:

There are no common errors to report on the advice given for ethical issues other than to say that most candidates could increase their marks if they explained the reasoning for their advice in sufficient depth, rather than simply providing a statement of the advice they are offering. The issue of inappropriate ethical issues was considered earlier in this PEG.