

Papers E3, P3 and F3

All strategic level exams

Information systems are a key element of the strategic level, yet candidates have consistently scored low marks when answering questions on the topic. Complacency is the prime suspect

By the examiners for the Enterprise Strategy, Financial Strategy and Performance Strategy papers

Recognising the important part that information systems (IS) play in modern life, the institute has made the subject a significant aspect of the Enterprise Strategy (E3), Performance Strategy (P3) and Financial Strategy (F3) papers. But, in the four times that the 2010 syllabus has been examined so far, candidates' performance in this area has been consistently weak. You would be well advised to take time to understand the role of IS at strategic level so that you can prepare more effectively for your exams. They constitute 15 per cent of the P3 syllabus, for instance, so they will require a considerable amount of work if you want to be sure of achieving a good mark.

Enterprise Strategy

IS are a key aspect of the E3 syllabus. They appear in section A, "Interacting with the competitive environment", under the heading "Evaluate the impact of information systems on an organisation", and also in section D, "Implementation of strategic plans and performance evaluation".

E3 students ought to have a good grounding in IS because they have already been tested on them in the Enterprise Operations paper (E1), where the subject constituted 20 per cent of the syllabus. At E1 the verbs used in the learning outcomes are at levels two and four: "identify", "discuss" and "analyse".

The indicative syllabus content published by CIMA for E1 provides a necessary background for what will be examined at E3, where the specified verbs are at level five: "evaluate" and "recommend". E3 focuses on the interaction between IS and organisational strategy. Its syllabus covers:

- The impact of the internet on organisations and their strategies.
- The strategic and competitive impact of IS.
- Competing through the exploitation of information rather than technology.
- The purpose and content of IS strategies.

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- Changes to IS appropriate to an organisation's strategic requirements.
- The need for an IS strategy that complements corporate and individual business strategies.

The key words here are "strategy", "competitive" and "changes". These reflect the paper's level and philosophy. To earn good marks, candidates need to show their understanding of how IS can be used as the basis for successful competition. A basic knowledge of IS will not be enough for a pass.

Candidates have performed disappointingly on this topic in the four E3 exams under the current syllabus. In the November 2010 paper, for instance, the post-exam guide states: "Question 4 was the least popular question on section B and the one for which candidates obtained the lowest marks. Most demonstrated a poor level of knowledge and understanding... and failed to successfully apply their limited knowledge to the scenario. This lack of ability in the syllabus area is a recurring problem... and clearly needs to be addressed by candidates and tutors."

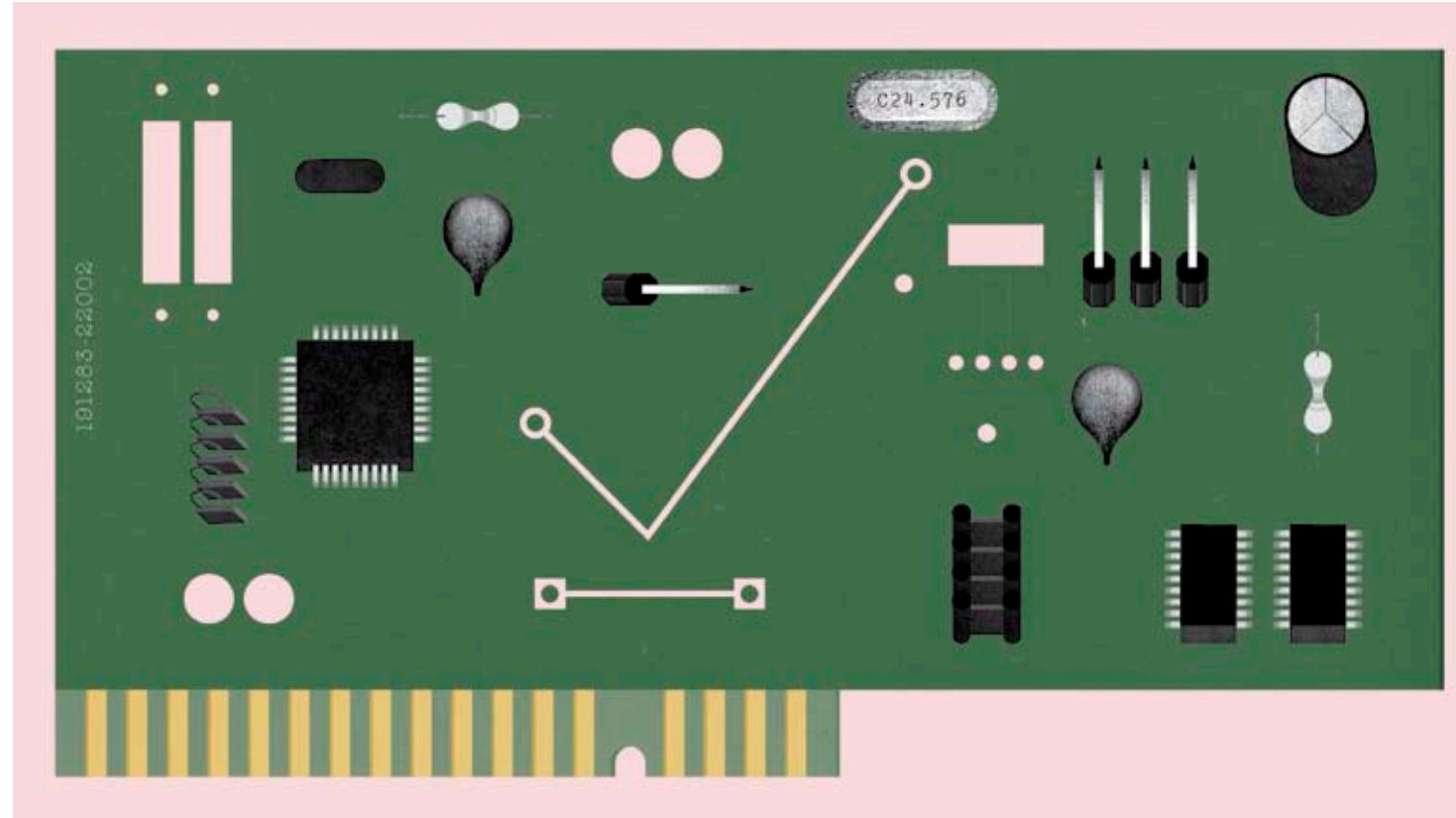


Illustration: Martin Nicolausson/Dutch Uncle

E3 students must recognise that IS are crucial in business. Given the ubiquity of information technology, IS are prevalent in modern commerce. Many companies – eg, Amazon – conduct their activities exclusively via IS. Such enterprises, which are an important and growing part of society, would not exist without them. Your job probably involves the use of IS, so you should make an effort to understand their strategic implications. CIMA recognises the strategic importance of IS to its members and has given IS appropriate weight in the syllabus. Questions on IS will therefore appear frequently in sections A and B of the E3 paper.

Performance Strategy

The IS content of the P3 paper is significant, since it constitutes 15 per cent of the syllabus. It is therefore important that candidates can apply their knowledge of IS to the scenarios provided.

P3 candidates should be able to "evaluate the benefits and risks associated with information-related

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systems", according to the institute, which has broken down this lead learning outcome into the following five components:

- Advise managers on the development of information management, IS and IT strategies that support management and internal control requirements.
- Evaluate IS appropriate to an organisation's needs for operational and control information.
- Evaluate benefits and risks in the structuring and organisation of the IS/IT function and its integration with the rest of the business.
- Recommend improvements to the control of IS.
- Evaluate problems and opportunities associated with the audit and control of systems that use IT.

The most important thing to note from this list of components is that only three verbs are used, all at level five: "evaluate", "advise" and "recommend". It is therefore extremely unlikely that candidates will be asked merely to list the benefits of an expert system or explain the role of the steering committee – they will be required to apply their knowledge.

CIMA has also issued the following list of indicative syllabus content for IS-related topics in P3:

- The importance and characteristics of information for organisations and the use of cost-benefit analysis to assess its value.
- The purpose and content of information management, IS and IT strategies, and their role in performance management and internal control.
- Data collection and IT systems that deliver information to different levels in the organisation – eg, transaction processing, decision support and executive information systems.
- The potential ways of organising the IT function – eg, the use of steering committees, support centres, helpdesk facilities and end-user participation.
- The arguments for and against outsourcing.
- Methods of securing systems and data back-up in case of a systems failure or data loss.
- Minimising the risk of computer-based fraud – eg, access restriction, password protection and automatic audit-trail generation.
- Risks in IS/IT systems – eg, erroneous input, unauthorised or unlicensed usage, virus infection, software corruption and theft.
- The risks and benefits of internet and intranet use.
- The criteria for choosing outsourcing/facilities management partners and/or managing relationships, service-level agreements, changes of supplier etc.
- Controls that can be designed into an information system, particularly one that uses IT – eg, security, integrity and contingency controls. ▶

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- The control and audit of systems development and implementation.
- Computer-assisted audit techniques – eg, audit interrogation software.

Candidates often perform extremely poorly on IS-related questions in P3. I usually feel that students think they know about this part of the syllabus and so fail to revise it in any depth. The comments in the post-exam guides for the past few sittings illustrate the problem. The guide for September 2010, for instance, states: “Part A was done quite poorly, with few candidates scoring high marks. Many failed to discuss how IS could be useful in a car-hire business. When the industry is given in the case, candidates should try to base their answer on that industry. A general answer that relates to any business will score low marks”.

According to the March 2011 post-exam guide, many candidates attempting part A “did not seem to know what a post-implementation review was. This area of the syllabus could do with some revision before the next exam. Many candidates wrote about a post-completion audit, which is not the same.”

In part B of the same paper, “few candidates could make sensible suggestions about whether internal audit would be suitable for this task. The role of the internal auditor will be examined fairly often, as it is a significant part of the syllabus.”

And Part C “was poorly answered. This was surprising, as we have asked about how to minimise risks when changing a system in the past and candidates do discuss running the systems in parallel”.

It’s clear, then, that students need to revise this part of the syllabus thoroughly and be able to apply their knowledge to a scenario – otherwise, marks will remain poor. It should be a straightforward part of the syllabus for well-prepared candidates.

Financial Strategy

IS carry less weight in the F3 syllabus than they do in the other strategic level papers. There is only one sentence in the indicative syllabus content that refers specifically to IS. It comes under section C1, “Investment decisions and project control”, and it covers “linking investment in IS/IT with strategic, operational and control needs (particularly where risks and benefits are difficult to quantify)”. This indicates that students are expected to understand the importance of IS/IT and the use of a formal IS/IT strategy in meeting overall strategic objectives.

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Questions involving an IS/IT investment project may require candidates to identify and evaluate both the financial and non-financial costs and benefits. Typically, such a project will have a negative net present value when the financial cash flows are considered in isolation. It’s therefore essential to evaluate the potential non-financial benefits in order to support a proposed project.

The non-financial benefits of IS/IT projects may include the following:

- Strategic – helping a business to achieve its overall objectives (eg, gain a competitive advantage).
- Operational – enhancing efficiency and effectiveness (eg, improve customer service).
- Control – providing feedback on performance, leading to better decision-making.

There is also a brief mention of IS later on in syllabus section C2 concerning “the post-merger or post-acquisition integration process (eg, management transfer and merger of systems)”. It may therefore be relevant to make an appropriate reference to IS implications when answering questions on the implementation of projects, mergers or acquisitions that require some IS development or integration.

Part D of question 1 in the May 2010 exam required candidates to “advise the directors on how to achieve efficient management and control of the implementation of the proposed projects”. These projects were a factory refit in a company’s home country and the construction of a new factory abroad. IS were not a key issue in the scenario, but a little credit was given to candidates who referred to the use of IS in controlling the projects or the need to integrate accounting and performance measurement systems across the group.

IS issues will generally be more relevant to a question concerning business integrations. A good example of this is part B of question 1 in the September 2010 exam, which asked candidates to “discuss the potential problems and issues that could arise from the integration of NN into the SC division of Aybe”.

In summary, IS issues are unlikely to constitute a large part of a question in F3, except in the context of an investment appraisal decision involving an IS project. But they may sometimes also be relevant in other questions involving the evaluation or implementation of projects, mergers and acquisitions, especially in scenarios where it may be necessary to develop or integrate systems.