**Answer to Question One**

**Requirement (a)(i)**

The impact of the three possible pricing strategies suggested by X and financial effect of changing the Daily News website to a subscription basis is shown in the tables below:

**(i) Current advertising revenue per week**

<table>
<thead>
<tr>
<th>Pages</th>
<th>Price per page</th>
<th>Days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>6,000</td>
<td>7</td>
<td>210,000</td>
</tr>
</tbody>
</table>

**(ii) Forecast subscription revenue per week**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Daily subscriptions: Price per day</th>
<th>Daily subscriptions: Forecast number of subscribers per day</th>
<th>Total daily subscriptions revenue per week</th>
<th>Weekly subscriptions: Price per Week</th>
<th>Weekly subscriptions: Forecast number of subscribers per week</th>
<th>Total weekly subscription revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£0.25</td>
<td>4,000</td>
<td>7,000</td>
<td>0.50</td>
<td>17,000</td>
<td>8,500</td>
</tr>
<tr>
<td>2</td>
<td>£0.50</td>
<td>3,500</td>
<td>12,250</td>
<td>0.75</td>
<td>15,000</td>
<td>11,250</td>
</tr>
<tr>
<td>3</td>
<td>£0.75</td>
<td>1,500</td>
<td>7,875</td>
<td>1.50</td>
<td>6,000</td>
<td>9,000</td>
</tr>
</tbody>
</table>

**(iii) Forecast advertising revenue per week**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Days</th>
<th>Revenue per page</th>
<th>Forecast number of pages sold per day</th>
<th>Total weekly revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7</td>
<td>4,000</td>
<td>7</td>
<td>196,000</td>
</tr>
<tr>
<td>2</td>
<td>7</td>
<td>3,750</td>
<td>9</td>
<td>236,250</td>
</tr>
<tr>
<td>3</td>
<td>7</td>
<td>2,500</td>
<td>10</td>
<td>175,000</td>
</tr>
</tbody>
</table>
(iv) Total weekly forecast revenue from subscriptions and advertising

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Subscriptions £</th>
<th>Advertising £</th>
<th>Total £</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>15,500</td>
<td>196,000</td>
<td>211,500</td>
</tr>
<tr>
<td>2</td>
<td>23,500</td>
<td>236,250</td>
<td>259,750</td>
</tr>
<tr>
<td>3</td>
<td>16,875</td>
<td>175,000</td>
<td>191,875</td>
</tr>
</tbody>
</table>

(v) Comparison of subscription-based website and free website

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Total forecast weekly revenue £</th>
<th>Current advertising revenue per week £</th>
<th>Incremental advantage/ (disadvantage) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>211,500</td>
<td>210,000</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>259,750</td>
<td>210,000</td>
<td>24</td>
</tr>
<tr>
<td>3</td>
<td>191,875</td>
<td>210,000</td>
<td>(9)</td>
</tr>
</tbody>
</table>

Requirement (a)(ii)

Table (v) shows that the results of changing to a subscription-based website per week. However, it would be useful for X, when considering the decision, to look at the aggregate effects of the change which is shown below:

**Strategy 1** would give extra revenue of £78,000 a year (£1,500 x 52 weeks) which can be characterised as a slight improvement.

**Strategy 2** would give extra revenue of £2,587,000 a year (£49,750 x 52 weeks), a substantial improvement.

**Strategy 3** would give reduced revenue £942,500 a year (£18,125 x 52 weeks) making this the worst strategy.

M plc has 200 websites and the Business Development Director, X, will be reviewing these. However, in her view, other websites of the 200 may be suitable for changing to a subscription-only basis. The experience which could be gained if the Daily News website changes could be usefully applied to the remaining websites.

A change to a subscription-based website might give M plc a temporary competitive advantage if this change puts the Daily News ahead of its competitors. Alternatively, this change may be necessary to keep the Daily News abreast of industry practice and readers’ preferences.

The Daily News potential subscribers may prove to be loyal to the website and the website could exploit this by selling products to them.

The proposal to change to a subscription basis and the forecasted outcomes relies on a complex set of estimates namely:

- Subscription levels and their associated prices
- The ratio of daily to weekly passes
- The levels and prices for the advertising sales

These estimates originate from X, who has used her previous experience of subscription-based websites and the results of commissioned market research.

If any of these estimates were to be inaccurate, the final result would be affected: for example, if two fewer pages of advertising a day were sold at each subscription level the result would be substantial losses.

**Summary**

The financial results indicate that one of the proposed strategies would lead to significantly increased revenue and potential profit for M plc, one strategy would make little difference and
the third would result in significantly reduced revenue and possibly lead to a loss.

The Web Division's Managing Director, Y, should be made aware that these forecasts rely on X's expertise and the results of market research. It would be prudent for Y to discuss the degree of confidence that X places in these forecasts before making the decision. The decision as to which strategy to adopt, if any, is likely to be made based on both financial and non-financial factors.

Requirement (b)(i)

The proposal to change the Daily News website to a subscription only basis should be evaluated against M plc's objectives as shown:

**Strategic objectives**

1. *Meeting the needs of its readers for reliable and well informed news.* The proposed change is neutral with respect to this objective.

2. *Expanding the geographical spread of M plc's output to reach as many potential newspaper and website readers as possible.* The proposed change is open to criticism because if the change takes place the maximum number of subscribers will be 21,000; a considerable reduction from the current level of 100,000 daily visits.

3. *Publish some newspapers which help meet the needs of native English speakers who live in countries which do not have English as their first language.* The proposed change is neutral with respect to this objective.

4. *Increase advertising income so that the group moves towards offering as many news titles as possible, free of charge, to the public.* The proposed change accords with the first part of this objective but conflicts with the second part.

**Financial objectives**

(i) *Ensure that revenue and operating profit grow by an average 4% per year.* The proposed change would contribute towards this objective.

(ii) *Achieve a steady growth in dividend per share.* The proposed change would contribute towards this objective.

(iii) *To maintain gearing below 40%.* The proposed change could make a small contribution to this if strategy 2 is adopted and it fulfills its forecast.

Summary

The proposed change of the Daily News website from being free to being available only on a subscription basis contradicts two of M plc's strategic objectives and accords with one objective and is neutral regarding the other one. It could also contribute towards the achievement of the three financial objectives.

Requirement (b)(ii)

X is likely to have to justify the change of the Daily News website to a subscription basis as it conflicts with two of M plc's strategic objectives. In this case, X may find that if the Divisional Managing Director takes a decision to implement this change, X will need to be able to defend the decision to the Board of M plc.

As regards Strategic Objective 2, X must concede that the proposed change does significantly reduce the readership of the website. However, she could point out that the subscribers may prove to be more loyal to the website than the current 'visitors' and they may be induced to buy other M plc's products through advertising directed at them through the Daily News website.

With respect to Strategic Objective 4 although the change means the website is no longer free it does increase the amount of advertising revenue which agrees with the objective.

The proposed change is also in broad agreement with one of M plc's financial objectives as it increases revenue and should increase operating profit and returns to shareholders.
The change has been put forward by X who has considerable experience of working with subscription-based websites. She has pointed out that the objectives were established in 2005 and that Strategic Objective 4 is outdated as it does not reflect current day practice. This view suggests that it could be time to change the objectives and that a slavish adherence to them may not be in M plc's best interests.

Summary
When the effects of the change are considered together, X could argue that the favourable ones outweigh the adverse. If the forecast results turn out to be accurate the subscription website will make a very significant addition to revenue and profit. This should be sufficient to justify the change despite the conflict with two of the objectives.

Requirement (c)
M plc's 200 websites constitute a product portfolio. One well known example of a product portfolio analysis model was developed by the Boston Consulting Group (BCG). The BCG analysis takes the form of a matrix with two axes:

- Relative market share: this is calculated as the firm's market share against its largest rival
- Market growth rate: this is the annual percentage change in sales volume in the industry or market.

The matrix is illustrated below:

<table>
<thead>
<tr>
<th>Relative market share</th>
<th>Market growth rate</th>
<th>BCG category</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
<td>Star</td>
<td>Invest to build</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
<td>Cash Cow</td>
<td>Hold Harvest</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td>Question mark</td>
<td>Invest to build</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
<td>Dog</td>
<td>Divest</td>
</tr>
</tbody>
</table>

The above recommendations give guidance as to future action but it could be dangerous to use them in a prescriptive manner. Like all models, the BCG matrix offers a structured way of dealing with complexity but it is only a representation of reality: it is not reality.

The important aspect for X of the BCG matrix in analysing the 200 websites is that it will give her an alternative perspective, in addition to profitability, when making the decisions about continuance or cessation. The combination of website profitability allied to a BCG categorisation should lead to a deeper understanding of each website's potential. Thus, for example, a website which shows a loss might have a high relative market share and a high market growth rate which would make it a ‘Star’. The BCG approach suggests that Stars receive investment. They may well become ‘Cash Cows’ in the future and yield positive cash flows.

It will be necessary to construct a number of BCG matrices for the 200 websites. It may be appropriate to group some websites together, perhaps by market segment or by the visitors' demographic characteristics. X 'lacks detailed information about the websites' so she will need to obtain market data from search engines such as Google and Yahoo. Some of this data is free whilst other data will have to be paid for.

M plc will need to use software to carry out a BCG analysis on its 200 websites.

Requirement (d)(i)
The Web Division's Human Relations Manager, Z, has suggested a strategic headcount reduction programme which would mean a loss of 100 jobs.

Z has suggested that each of the 10 departments should declare 10 redundancies. As the departments are of different sizes the effect of this proposal would be disproportionate within...
individual departments. If this was applied strictly some departments, for example, Web Security would be reduced to one member of staff and so be unable to function which is likely to be injurious for the business. Z should consult departmental managers as to an appropriate number of staff they could forego and be willing to modify his proposal.

Z’s criteria for redundancy are related to salary and age. These criteria are not related to the needs of the business, other than increasing profitability, and are discriminatory and probably illegal. These criteria appear to be unethical. Z should ensure that the criteria are lawful. He should seek guidance from a specialist in employment law.

Z has imposed this reduction programme upon the departmental managers and given them the unpleasant duty of notifying the staff that will be made redundant. This raises the possibility that the departmental managers will carry out this task according to their individual preferences. It would be advisable if Z organised some training for the managers and if the notifications were a joint responsibility of the Human Resources Department and the departmental managers.

Z’s programme is a response to the Web Division’s Managing Director’s instruction to examine ways of enhancing efficiency and reducing costs. The reduction of 100 jobs will reduce costs but may impede efficiency. The programme could offer short-term gains at the expense of long-term losses.

Requirement (d)(ii)

Z could use any, or some, of the following approaches to deal with any resistance to change arising from the strategic headcount reduction programme (SHRP):

- Participation and involvement: the Web Division’s staff could be invited to influence the structure of the Division post SHRP;

- Education and communication: the Web Division’s staff could be given accurate and up-to-date information about the Division after SHRP which could help to reduce stress;

- Facilitation and support: the staff who will remain after SHRP will be given help to adjust to their new environment;

- Negotiation: Z could attempt to reach an agreement between M plc’s objectives with respect to the SHRP and the wishes of the Web Division’s staff remaining within it after SHRP.
Answer to Question Two

Requirement (a)

Competitive rivalry within retail banking
BBB has entered a market which contains state owned institutions that compete strongly for retail banking business. SB, which is the major state-owned bank has half of the retail banking business and has a position of dominance. There are also some well-established foreign banks that have 35% of the market. However, two foreign banks that entered country R at the same time as BBB have decided to withdraw from the country.

All of the above factors suggest that the competitive rivalry within R’s retail banking market is intense.

Bargaining power of customers
The customers are the people of R who either have, or would like to have, a bank account. In 2008 only 50% of the population had a bank account. A citizen of R who wants a bank account in 2011 has the following possible providers:

- SB, the state owned bank, which has 50% of R’s retail business
- Other state institutions
- Foreign banks who have 35% of the retail banking market
- BBB
- Any other banks or institutions which have a share of the 15% of the market and are not accounted for above

The choice of providers of retail bank accounts for the citizen of R is a wide one. This would not give the individual customer any power over a bank ‘per se’. However the wide degree of choice will contribute to the degree of competitive rivalry.

Bargaining power of suppliers
As R has a Western style liberal economy, this would permit the free movement of funds so BBB should have access to cash both inside and outside of R. BBB should, therefore, be able to supply its capital needs subject only to normal financial market conditions.

There is no information given in the scenario about other inputs which BBB might require, so no judgement is given about this.

Threat of new entrants
Country R’s economy is a liberal one which suggests that entry into the retail banking market should be possible for any bank able to meet R’s regulatory requirements. However, the extent of the investment which BBB made to enter this market, $350 million, would constitute a barrier to entry for many businesses. The dominance of SB and the implied customer loyalty possessed by that bank would be further barriers. The recent experience of the two foreign banks which decided to withdraw from R could also dissuade other banks from entering R as does the conservatism of the citizens.

Threat of substitute products
This threat bears a relationship to the position of buyers who have a great degree of choice as regards a bank to supply them with a bank account. The way in which a bank account can be operated has changed lately with an increasing proportion being operated via the Internet. However, these are supplementary rather than substitute products.

Any innovation which BBB might introduce to differentiate itself is likely to be imitable by its competitors. Within a liberal economy, citizens are likely to become increasingly reliant on a bank account for which there is no equivalent substitute.
**Summary**

Porter’s Five Forces Model attempts to describe an industry or market in terms of its competitiveness and resultant attractiveness.

The retail banking market within country R can be summarised thus:

<table>
<thead>
<tr>
<th>Force</th>
<th>Strength of force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive rivalry within retail banking</td>
<td>Strong</td>
</tr>
<tr>
<td>Bargaining power of customers</td>
<td>Weak</td>
</tr>
<tr>
<td>Bargaining power of suppliers</td>
<td>No judgement given</td>
</tr>
<tr>
<td>Threat of new entrants</td>
<td>Weak</td>
</tr>
<tr>
<td>Threat of substitute products</td>
<td>Weak</td>
</tr>
</tbody>
</table>

The aggregation of the Five Forces suggests that this market should be a profitable one. However, this does not imply that the market will be equally profitable for all the participants.

**Requirement (b)**

The analysis in (a) suggests that the retail banking market in R should be a profitable one. Other favourable market attributes are the forecast of growth in the market which may be based, in part, on the consideration that in 2008 only 50% of the population had a bank account. As more of R’s citizens acquire a bank account, then the amount of retail business in R will increase.

However, the earlier analysis indicated that this market has an strong degree of competitive rivalry. BBB faces competition from SB, a state owned bank which has 50% of the country's retail deposits. SB has been recently reorganised which has strengthened it. SB has shown it can innovate with its introduction of successful new products. SB will also benefit from the conservatism of R’s population who don’t like change. Although BBB has a strong international brand image, this may not be enough to overcome R’s citizens’ preference for the familiar. All these factors make SB a very formidable competitor. BBB also has to face competition from a number of foreign banks and possibly some more domestic banks.

In making a recommendation to BBB about the continuance of its business in R it is important to determine the sustainable competitive advantage(s) which BBB possesses with respect to its business in R. Given the dominance of SB and the strong competition within this market, there seems no obvious source of sustainable competitive advantage for BBB within R. This, presumably, was the conclusion also reached by the two foreign banks who decided in 2011 to withdraw from R.

BBB is advised to withdraw from retail banking in R. If this decision is implemented there will be exit costs to pay but there should also be some revenue resulting from the sale of BBB’s assets within R.

**Requirement (c)**

**Porter’s Diamond**

BBB should find this model helpful because it examines the competitiveness of countries. It suggests that there are inherent reasons why some countries are more competitive than others and why particular industries within countries are more successful than others. If BBB is considering investing in a new foreign country it could use Porter's Diamond as a screening mechanism to reject countries where it seems investment will not be fruitful. On the positive side, the model will indicate countries where the business environment will be favourable.

The model implies that national advantage is due to the inter-relationship of the following:

*Firm strategy, structure and rivalry*: consideration of these factors will give BBB an appreciation of the likely competition it will face.

*Factor conditions*: this will inform BBB of the availability, within the country under consideration, of the factors it will need in order to do business, for example, the supply and skill levels of its potential workforce.
Demand conditions: this will reveal the sophistication of the country's consumers and how demanding they are. BBB will then be able to determine whether its product offerings will appeal.

Related and supporting industries: an understanding of this will enable BBB to determine if the country has the infrastructure to support its operations.

Porter also points out that two other factors may influence the ability of a country to produce world-class firms:

- **Government:** whose policies can impact on the four aspects of the Diamond given above.
- **Chance events:** for example wars and civil unrest or chance discoveries can also change the four aspects of the diamond unpredictably.

However, even if Porter's Diamond suggests a country is a good environment, the results of the analysis should be used advisedly.
Answer to Question Three

Requirement (a)

WGG, the new owner of NNN plc, plans to sell it by the end of 2013 and requires NNN plc to satisfy the following conditions:

- It must have no more qualified audit reports
- It must be making a profit
- It must not be engaged in any criminal activities
- It must have introduced an ethical code

As WGG’s planning horizon for NNN plc is only a little over two years, any changes which need to be made will need to be made quickly. Due to the numerous causes for concern identified by the auditors NNN plc will require comprehensive change and what amounts to a ‘turn-around’ strategy.

The causes for concern can be categorised as:

Accountancy related: incorrect accounting for revenue and cash, inaccurate forecasting, unreported revenue, cash discrepancies.

Performance related: loss of £5,000,000 in year ended 31 March 2011

Organisation related: criminality

These categories are not mutually exclusive. NNN plc will need to devise strategies and set objectives for each of the areas of concern.

Accountancy

As the auditors revealed the causes of concern and NNN plc needs to give an unqualified audit report by the end of 2013, this would be a good place for NNN plc to start. If the management of NNN plc enter into discussions with the auditors it should be able to receive guidance as to the auditors’ priorities and requirements. It could also be that colleagues from the auditors’ firm could be hired as consultants to remedy some of NNN plc’s problems. As the large accountancy firms usually have specialists in IT, Human Resource Management and Project Management, NNN plc could find this a useful way of achieving a quick turnaround.

NNN plc will have to review its accounting systems and procedures to ensure both revenue and cash are accurately accounted for. NNN plc has a problem with its cash accounting as it has a shortfall of £1,000,000. NNN plc needs to investigate this, determine as far as it is able the causes of the shortfall and institute robust systems to prevent this reoccurring. This may involve NNN plc devising new systems for revenue and cash comprising both physical security and accounting systems. However, it could be that the existing systems are adequate as long as NNN plc ensures that they are complied with.

NNN plc’s forecasting system proved to be very inaccurate in 2011. Forecasts are important for investor and creditor confidence as well as for internal managerial motivation. When the actual results were declared in 2011 this would have badly affected a number of parties’ confidence. Part of the large discrepancy between the forecast and actual achievement would be due to the fine. However NNN plc needs to analyse the reasons for the rest of the shortfall. This may not be straightforward because the forecast may have been inaccurate because:

1. the forecasting procedure is flawed
2. NNN plc's performance fell short of expectations
3. a combination of both these factors

In order to rectify 1., NNN plc will need to examine its forecasting methodology and it might benefit from some specialist external consultancy to help it do this.
**Performance**

It is likely that NNN plc’s performance did fall short of expectations as it made a loss of £5,000,000 only part of which might be attributable to the fine. WGG plans to sell NNN plc in approximately two year’s time when it must be making a profit and so there is a pressing need to improve its operational efficiency. NNN plc’s operational efficiency has declined due to a lack of investment and this has impeded its competitiveness. NNN plc will have to address the deficiencies in its vehicle fleet, infrastructure and driver recruitment and training. It will need to formulate a capital budget and subject investment proposals to proper scrutiny and appraisal, for example, Net Present Value calculations where appropriate.

**Organisation**

Several of NNN plc’s activities give rise to concern: people smuggling, revenue and cash discrepancies. There are a number of procedures NNN plc should implement to prevent future occurrences. NNN plc should examine its recruitment processes to ensure that any future staff it employs are honest. The employees who were convicted of criminal activities came from different levels of the company: they were two directors, one manager and six drivers which indicates that the criminality was widespread. As well as the obvious precaution of severely tightening up its recruitment procedures, possibly using specialist outside consultants to do so, NNN plc may need to review its internal culture and seek to change it to a more ethical/honest one. The introduction of an ethical code would be one step in this direction.

NNN plc could set up an Internal Security Department to monitor employee behaviour and to safeguard its cash transactions. Given that there was a possible shortfall of £1,000,000, this implies that NNN plc has a substantial number of cash transactions and the auditors also noted that not all cash revenue was recorded. The Internal Security Department could employ ex-police officers to monitor any employees whose behaviour gave cause for concern. Other physical security methods could be used as appropriate, for example, closed circuit TV, safes, searches of employees and specialist security couriers to move large amounts of cash.

NNN plc should also establish an Internal Audit Department which could work in conjunction with the Internal Security Department. The Internal Auditors should establish a programme to verify compliance within NNN plc with its procedures. The Internal Auditors could also carry out ‘ad hoc’ investigations as required.

**Requirement (b)**

In drafting its own ethical code, NNN plc could draw upon CIMA’s Code of Ethics. This describes a number of fundamental principles which are applicable to NNN plc.

NNN plc’s code could state that the company and its employees should comply with the following principles because they constitute best practice:

- **Integrity**: NNN plc should be straightforward and honest in all business relationships.
- **Objectivity**: NNN plc should not allow bias, conflict of interest or undue influence of others to override business judgements.
- **Confidentiality**: NNN plc should respect the confidentiality of business relationships and not disclose information to third parties without proper authority.
- **Legality**: NNN plc must comply with the law.

NNN plc could also consider a broader scope for its ethical code than that adopted for CIMA’s Code which is orientated towards the professional behaviour of its members. NNN plc could include the following principles which reflect contemporary ethical concerns, for example:

- **Sustainability**: NNN plc will aspire to implement strategies that contribute to long-term success.
**Fair trade:** NNN plc will contribute towards enabling producers in developing countries to achieve better trading conditions.

**Non-discriminatory/equality of opportunity:** NNN plc will treat all people equally.

**Environmental:** NNN plc will endeavour to minimise its impact upon the natural world.

*Examiner’s note: more examples of ethical principles have been given than asked for in the requirement to assist teachers and candidates.*
Answer to Question Four

Requirement (a)

H has the following three objectives:

1. **Maintain ZZZ’s preferred supplier status with MMM:** In order to achieve this objective ZZZ has to achieve a number of different things:
   
   (i) ZZZ is guaranteed £2 million worth of business each week. This is the minimum, so that it could be that some weeks MMM wants a greater number of components. H has to ensure that ZZZ has the production capacity and flexibility to meet MMM’s demand.
   
   There is nothing explicit within ZZZ’s performance management system (PMS) that addresses this aspect of MMM’s requirements.
   
   (ii) MMM insists that ZZZ’s prices will reduce by 4% year-on-year.
   
   There is nothing explicit within ZZZ’s (PMS) that addresses this aspect of MMM’s requirements.
   
   (iii) ZZZ will lose its preferred supplier status if there are two reports of any of its components failing when they have been delivered to MMM.
   
   There is nothing explicit within ZZZ’s (PMS) that addresses this aspect of MMM’s requirements.

2. **Keep ZZZ’s expenditure within the limits set each year in the budget which is approved by its Board of Directors:**

   H’s PMS is based on budgetary control. Quarterly reports are prepared showing budget and actual expenditure. However the delay in the reporting system seems to militate against control and the operational managers are only shown aggregate amounts in the cost centres. H believes that the details of ZZZ’s finances should not be shown to the operational managers. The operational managers are not involved in capital expenditure decisions for the same reason.

   Therefore the PMS is too aggregated, too late and too restricted in its reporting scope to contribute much to the achievement of this objective.

3. **Develop the management skills of ZZZ’s 32 operational managers:**

   As alluded to in 2 above, the 32 operational managers are not involved in a meaningful way with ZZZ’s budgetary control, neither are they involved in capital expenditure decisions. This would not be the case in most organisations and far from the PMS developing their management skills, it inhibits them.

Summary

With regards to all three of H’s objectives, the PMS contributes little or nothing to the achievement of H’s objectives. In these respects ZZZ’s PMS is ineffective.

Requirement (b)

ZZZ’s current performance management system produces three-monthly variances reports. It seems unlikely that these are sufficiently timely to contribute to effective control. This could be improved by making these reports more frequent; at a minimum, monthly. Some variance reporting might be appropriately done in ‘real-time’.

ZZZ has 2,000 cost centres for which it produces reports. This could be improved by ZZZ reviewing the number of cost centres and future analysis could be assisted if this number was reduced. If H prioritised his cost centre review activities, this would make better use of his time.
than by trying to examine all of the current 2,000 cost centres. He could prioritise the cost centres by the size of their expenditures and also by only looking at exceptional items.

Currently, there is no obvious way of ensuring that the results of the cost centre reviews can influence future behaviour as ZZZ’s operational managers are not shown the variance reports. The operational managers should be shown the results of the review of variances which could then form the basis of feedback and feedforward reporting and action. This would result in ZZZ being able to learn from past performance and so influence future performance. Unless the feedback loop is completed, control is uninformed and performance is not being managed.

ZZZ could widen the scope of its performance management system by reporting on non-financial aspects, for example, quality and reliability.

Requirement (c)

The following aspects of ZZZ’s performance contribute towards the maintenance of its preferred supplier status and are suitable for the formulation of performance measures. In all cases regular reporting of achievement against these measures could demonstrate progress.

Weekly guaranteed minimum amount of business of £2 million
ZZZ has to be able to supply MMM with at least £2 million worth of components each week with the implication that some weeks MMM will require more than this. Therefore, a performance measure dealing with ‘Reliability of Production’ or ‘Production Flexibility’ or ‘Production Achievement’ would be appropriate.

Year-on-year reduction of 4% in the prices
This implies that ZZZ will have to reduce its costs year-on-year. Therefore, a performance measure relating to ‘Cost Reduction’ or ‘Cost Improvement’ would assist ZZZ in meeting the price reduction target.

Just-In-Time production system
ZZZ needs to ensure that it can continually successfully interface with MMM’s JIT system. Therefore, a performance measure relating to ‘Timeliness of Delivery’ or ‘Achievement’ against MMM’s demands would address MMM’s requirements.

Component failure
If ZZZ’s components fail on two occasions it will lose its preferred supplier status. Therefore, a performance measure covering ‘Product Quality’ or ‘Product Reliability’ or ‘Product Durability’ would be useful.

Examiner’s note: more examples of performance measures have been given than asked for in the requirement to assist teachers and candidates. The candidates did not have to use the same titles for their performance measures but were given appropriate credit for performance measures that capture the sense of MMM’s demands.