General Comments

Generally performance in this examination was disappointing. This was believed to be a well-balanced paper of an appropriate standard. Few achieved very good marks and there were a persistent number of weak efforts. Generally there was a tendency not to relate knowledge and skills as effectively as would have been desired to the given scenarios. Token attempts at questions and sub questions and a lack of attention to aspects of the paper attracting high marks suggest that examination technique and time control could be improved in some cases.

Questions 2 and 4 proved to be popular choices, possibly because they explicitly identified well know theoretical models and framework. Question 5 was the least popular choice of questions in Section B.
Question 1 (a)

Discuss the effect of the non-profit-maximising aim on the directors of CG in formulating future strategy. Advise the directors of CG on the method which is most appropriate for them to formulate strategy. Your advice should include a critical appraisal of the current method (rational planning model) employed.

(10 marks)

Rationale

Examines the constraints placed on the directors by operating in a not-for-profit environment and how they may avoid criticism. It seeks critical appraisal of the usefulness of the rational planning model in the situation contained in the scenario and a recommendation of alternatives.

Suggested Approach

- Clear recognition of CG’s overall objectives.
- Potential criticism if high returns are made.
- Explanation of how risks can be reduced or minimised.
- Recognition of need to find projects that provide for self re-generation.
- Wider considerations as to where and to whom funds should be provided.
- Critical appraisal of rational planning model, particularly its inflexibility.
- Proposal of alternative methods such as emergent strategy approach.

Marking Guide

| Strong discussion of impact of not-for-profit aim. Critical appraisal of rational planning model. | 5 |
| Recommendations of alternative more appropriate methods of formulating strategy | 5 |

Examiner’s Comments

Most candidates made a reasonable attempt at this sub question.

Common Errors

- A failure to identify alternative approaches and/or an over emphasis on describing the stages involved in the rational planning model without reference to the scenario.
**Question 1 (b)**

Evaluate the performance of the regional manager for region Z (making whatever comparisons with region M you think are appropriate) and advise whether the development proposal for region Z should go ahead. Your advice should take account of the expected NPV of the proposal, its impact on ROCE in 2003/4 (assuming all other revenues and costs in 2003/4 are the same as for 2002/3 except for the effect of depreciation on any new proposals) and include calculations demonstrating its sensitivity to the possibility of returning a negative NPV.

(30 marks)

**Rationale**

This requirement seeks a review of performance of individual managers within the scenario and how this may be affected by a future development proposal. It expands on basic analysis of strategic development proposals incorporating sensitivity analysis.

**Suggested Approach**

- Calculate NPV of proposal.
- Calculate impact on ROCE in 2003/4.
- Carry out sensitivity analysis.
- Provide commentary on performance of region Z manager.
- Analyse performance of region Z manager in comparison with region M manager.
- Provide commentary on comparison of both managers.

**Marking Guide**

<table>
<thead>
<tr>
<th>Component</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV of proposal</td>
<td>3</td>
</tr>
<tr>
<td>Impact on ROCE</td>
<td>6</td>
</tr>
<tr>
<td>Thorough sensitivity analysis, 1 or 2 points per relevant calculation to a maximum of</td>
<td>9</td>
</tr>
<tr>
<td>Commentary on performance that is supported by valid and comprehensive analysis</td>
<td>4</td>
</tr>
<tr>
<td>Analyse performance of region Z manager in comparison with region M manager</td>
<td>5</td>
</tr>
<tr>
<td>Commentary on performance that is supported by valid and comprehensive analysis</td>
<td>5</td>
</tr>
</tbody>
</table>

**Maximum marks awarded**

30

**Examiner's Comments**

A wide variety of candidate performance in relation to this question.

**Common Errors**

- Some candidates presented numeric aspects of the question with little discussion. Several candidates failed to analyse performance of region Z manager in comparison with region M manager based on figures available and by use of percentage calculations.
Question 1 (c)

As stated in the "Performance measures" section on page 2, the directors measure the performance of the regional managers by determining their ROCE using the net book values of capital employed. Discuss the method employed by the directors of CG to evaluate the performance of its regional managers and advise on alternative approaches which may be used. Your discussion should also take into account the effect on the performance of the regional managers of the government target ROCE of 5%.

(10 marks)

Rationale

Examines the importance of recognising the impact of a centrally-set target on managers and addresses the methods by which performance may be evaluated, including a critical appraisal of the traditional method which is currently in use in the scenario.

Suggested Approach

- Discussion of unusual situation for regional managers of CG in that they are capped as to the return they should be obtaining.
- Discussion of inclusion of transfers in measure of performance.
- Critical appraisal of method currently in use giving examples of the impact from the scenario.
- Discussion of apportionment of HQ costs.
- Discussion of alternative approaches to performance evaluation including recognition of the need to agree these with government.

Marking Guide

| Robust discussion of method employed by CG and provision of advice to directors of CG on methods to be employed supported by reasons. | 5 |
| Discussion of impact of government target for ROCE on managerial performance. | 5 |

Examiner’s Comments

Candidates devoting sufficient time to this sub section generally produced reasonable answers.

Common Errors

- A failure to identify several alternative practical measures.
**Question 2 (a)**

Justify the use of a PEST framework to assist your team's environmental analysis for the Republic of Borderland.

(8 marks)

**Rationale**

Examines the role and value of PEST as an analytic framework in understanding external environmental factors.

**Suggested Approach**

- Discussion of frameworks for environmental analysis related to the scenario.
- Description of PEST, justification as a suitable framework in helping understanding (particular insights, easy to understand and apply, etc).
- Illustrated relevant (PEST) environmental factors as they relate to the group.

**Marking Guide**

<table>
<thead>
<tr>
<th>Marking Guide</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong discussion and justification of PEST as a framework for contributing to understanding environmental analysis.</td>
<td>4</td>
</tr>
<tr>
<td>Purposeful examples of factors identified and related to scenario.</td>
<td>4</td>
</tr>
</tbody>
</table>

**Examiner’s Comments**

Some candidates addressed this aspect of the question confidently whilst others exhibited common failings (see below).

*Common Errors*

- A failure to draw reference to other frameworks for environmental analysis, and/or a failure to relate thinking to the scenario.
- A failure to justify the use of PEST and a failure to distinguish the requirements of part (a) and part (b).
Question 2 (b)

Discuss the main issues arising from applying this framework, and highlight what more information is needed by Don Mac on Borderland.

(17 marks)

Rationale

Examines the significance and understanding of factors, particularly when operating in the context of global markets, and the need to align strategic approaches accordingly.

Suggested Approach

- Itemisation of a few relevant main issues arising from PEST.
- Discussion of the implication for these within the context of Don Mac’s strategic approach and functioning.
- Highlight information needs/questions to be answered relating to scenario.

Marking Guide

<table>
<thead>
<tr>
<th>Description</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purposeful discussion of likely main issues arising from PEST clearly related to Don Mac.</td>
<td>8</td>
</tr>
<tr>
<td>Up to 2 marks per PEST category.</td>
<td></td>
</tr>
<tr>
<td>Additional credit for combining categories.</td>
<td>1</td>
</tr>
<tr>
<td>Highlighting of realistic further information needs and areas on Borderland based on these factors. Up to 2 marks per PEST category.</td>
<td>8</td>
</tr>
</tbody>
</table>

Examiner’s Comments

There were examples of thoughtful, well-prepared responses that attracted high marks.

Common Errors

- An over concentration on performing a PEST analysis at the expense of other requirements implied by the sub question.
- A failure to distinguish the requirements of part (a) and part (b).
**Question 3 (a)**

Evaluate the importance of competitor analysis, with reference to the benefits and potential dangers of undertaking such an exercise.

(10 marks)

**Rationale**

Examines the strategic significance of competitor analysis, in particular both helpful and unhelpful aspects of the process.

**Suggested Approach**

- Discussion of competitor analysis as part of strategic process.
- Identification of the importance of competitor analysis within such a context (Competitors’ reaction to strategies and pricing and impact on profitability; greater awareness; more systematic planning).
- Discussion of the benefits.
- Discussion of the potential dangers.

**Marking Guide**

| Purposeful discussion of impact of competitor analysis as part of the competitive strategic process. | 5 |
| Discussion of realistic issues related to the activity both positive and potentially negative. | 5 |

**Examiner’s Comments**

*Common Errors*
- A failure to relate competitor analysis to the overall strategic process.
Question 3 (b)

Discuss the key issues to be addressed when conducting a competitor analysis, including potential data sources and tools that may be helpful.

(10 marks)

Rationale

Considers the practical issues associated with the exercise, specifically areas of analysis, tools, techniques and sources of data.

Suggested Approach

- Identification of appropriate framework to discuss key issues (For example: Against whom are we competing? What are our competitors’ objectives? What strategies are they pursuing? What are their strengths and weaknesses? How are they likely to behave in relation to us, and so on).
- Discussion of each key issue in turn associated with competitor analysis and potential data sources and tools for each issue.

Marking Guide

| Identification of several issues in competitor analysis and discussion of potential tools and sources clearly linked to these issues. | 5 |
| Conducting these discussions within an overall analytic framework/theory. | 5 |

Examiner’s Comments

Common Errors
- A temptation to list/discuss a number of techniques without relating them to ways in which insights into competitors might be gained.
### Question 3 (c)

Explain the relationship between the product life cycle and competitor analysis.  

(5 marks)

### Rationale

This requirement seeks an explanation of the linking of two significant concepts as part of an integrated approach to strategic analysis.

### Suggested Approach

- Description of the product life cycle.
- Discussion of implication upon competitor analysis (better understanding of number of competitors faced, and their likely strategies and intentions).
- Discussion of stages in respect of consumer demand competitor action and pricing issues.

### Marking Guide

<table>
<thead>
<tr>
<th>Description</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mature discussion of product life cycle and its main features clearly related to competitor analysis. Purposeful illustrations of plc stage and likely competitor approach.</td>
<td>5</td>
</tr>
</tbody>
</table>

### Examiner’s Comments

A number of weak or incomplete attempts for this sub question.

**Common Errors**

- Presenting the product life cycle without relating it to competitor analysis.
### Question 4 (a)

Using the example of a supermarket (or similar large mainly food-retailing organisation), discuss the main components of the value chain. You should refer to the particular skills that you as management accountant can bring to an analysis of the value chain.

(17 marks)

### Rationale

Explores candidates' understanding of value chain analysis within a realistic working context and in terms of the specific functioning of a management accountant within such a context.

### Suggested Approach

- Explain the theory and usefulness of value chain analysis including reference to primary and support activities.
- Discuss the (nine) main activities/components of the value chain.
- Discuss these components by use of illustrations from a supermarket's perspective.
- Identify the particular role that can be played by the management accountant as part of such an analysis (assembling costs; presenting this information; helping interpret the analysis and sharing decisions arising from analysis of each part).

### Marking Guide

<table>
<thead>
<tr>
<th>Purposeful discussion of the technique and its usefulness. All nine aspects well illustrated from the supermarket scenario. The specific role of the management accountant in contributing to this analysis discussed. Up to 2 marks related to each aspect of the value chain Up to 2 marks related to role of the management for each aspect of the value chain</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum marks awarded</td>
<td>17</td>
</tr>
</tbody>
</table>

### Examiner's Comments

There were examples of thoughtful, well-prepared responses that attracted high marks.

**Common Errors**
- A lack of emphasis on role of the management accountant.
- Weak relationship between the technique and its application to the scenario.
**Question 4 (b)**

Discuss the contribution of value chain analysis in the effective implementation of generic strategies.  
*(8 marks)*

**Rationale**

Examines the relationship between the potential offered by value chain analysis and (Porter's) generic strategies followed by an organisation.

**Suggested Approach**

- Discussion of the concept of generic strategies (overall cost leadership, differentiation or focus based on cost or differentiation).
- Identification of implementation issues associated with these strategies (a need to examine activities to lever either lower cost or a more differentiated product).
- Establish the relationship between the strategy and value chain analysis.

**Marking Guide**

| Strong discussion of the three generic strategies, including cost/focus and differentiation/focus strategies. | 3 |
| Purposeful explanation of the contribution of value chain analysis in the effective implementation of such strategies. | 5 |

**Examiner's Comments**

*Common Errors*
- A failure to recognise what was meant by generic strategies.
- A failure to relate generic strategies to value chain analysis.
Question 5 (a)

Evaluate the way in which the RP Manufacturing Company is implementing strategy and comment upon the major challenges posed by the new strategy.  

(8 marks)

Rationale

This requirement seeks an analysis of the approach to strategy implementation described in the scenario and the likely issues arising from such a specific strategic realignment.

Suggested Approach

- Identification of general approach to strategy implementation (top down process, autocratic, little staff involvement, approach is “structure following strategy”, “big bang” implementation).
- Identification of major likely changes (expertise/information/resources/adequacy of performance measurement systems, shared values and style).
- The implication of these changes and likely challenges (keeping the business running, achieving the savings demanded, workforce buy-in, a new role for HQ, re-skilling, staff turnover, system redesign and a period of staff reorientation).

Marking Guide

| Purposeful analysis of impact of strategy implementation so far | 3 |
| Well argued case for the major implications including challenges. Excellent candidates will set this analysis within the one or more academic frameworks and can expect to receive high marks as a result (for example, Greiner’s organisational development, McKinsey’s “7 S framework” and so on). | 5 |

Examiner’s Comments

Many candidates affording themselves sufficient time produced thoughtful analytic responses.

Common Errors
- A lack of time taken.
### Question 5 (b)

Given the major changes within the *RP Manufacturing Company*, explain why traditional management accounting approaches may **not** be appropriate.  

*(8 marks)*

### Rationale

Examines the generalised criticisms of traditional management accounting within the context of the scenario where an organisation is engineering significant change.

### Suggested Approach

- Discuss criticisms of traditional management accounting approaches.
- Relate such potential “defects” to the scenario (organisations wanting to operate in less traditional ways, information relevance and appropriateness, changing the MA function to help drive change, markets, customers and quality issues and so on).

### Marking Guide

| Purposeful discussion of impact of major shortcomings of traditional management accounting approaches | 3 |
| Clear relevant linkage to the scenario | 5 |

### Examiner’s Comments

Generally reasonably well addressed by candidates.
Question 5 (c)

Discuss the likely information demands upon the management accounting function given the changes within the organisation.

(9 marks)

Rationale

Explores the implications of changes outlined upon information needs and hence on the management accounting function.

Suggested Approach

- Discussion of types of information that will be needed in the future (for example, customer account profitability, direct product profitability, zero based budgeting and strategic management accounting information, value chain analysis, benchmarking and activity-based costing and cost benefit analysis).
- Discussion of role played by the function in supplying these (proactive, flexible, creative; move to open book arrangements; developing greater monitoring and control information demands).
- Implication for the function as a whole.

Marking Guide

| Strong discussion of impact of information needs clearly arising from the scenario. | 4 |
| Purposeful discussion of the effect upon the function as a whole. | 5 |

Examiner’s Comments

Common Errors
- A repetition of points made earlier under 5(b).