

Report on Candidates' Performance: Case Study (IRS Ltd)

Results were more encouraging than those for the first case study examination in May 2001, but a significant number of candidates still had problems in approaching the case and formulating an appropriate answer.

Positive signs

To deal first with the positive signs, rather than only emphasise problems, the following features of the November 2001 scripts are improvements over the May 2001 scripts:

1. Better pass rates were achieved, and there were a reasonable number of very good scripts.
2. There were very few candidates who appeared to have major problems in managing the time available and few obviously incomplete scripts.
3. Presentation was generally good, sometimes very good. Most candidates achieved either a pass or a marginal pass, with very few falling below a marginal standard.
4. Most comments and recommendations were broadly sensible, even if not always supported with adequate justification.
5. Most candidates showed a reasonable understanding of the nature of the business and its environment, and the problems of dealing with a small number of very large customers. Few appeared to have any problems in understanding an easily accessible case scenario.

Key problems

To turn to the problems, it is desirable to try and interpret the apparent causes of the problems.

Reading and meeting the question requirement

The first problem, which is familiar to Examiners from other Final level papers, is that of failing to read and interpret the exact requirement. A pass mark is more likely to be achieved by candidates who supply exactly what is required. The specific failings here were:

- discussing feasibility, as required, but ignoring the subsequent phrase "*including financial viability*". A review of the developing financial situation was expected, using the data provided;
- not providing firm recommendations. Many candidates avoided making recommendations by stating a need for more information, more analysis, more market research. This is all valid up to a point; case studies, like real life, never provide perfect information. But recommendations have to be made so that decisions can be taken, on the basis of the imperfect information that exists. It is, of course, quite appropriate to make a recommendation subject to certain conditions, such as insisting that finance be secured before proceeding, and agreement of the directors to at least a medium term plan of agreed action.

Time allocation

The other major problem for many candidates was the balance between understanding the Unseen material, synthesising an understanding of the complete case, Pre-seen and Unseen, undertaking any necessary analysis, planning an answer, and then writing the required report. It is fairly obvious that a number of candidates spend far too much time on the preliminaries, and too little time on the required report. This can be seen from:

- extremely lengthy rough notes, noting virtually every fact in the Unseen;
- detailed answer plans, often designed around headings which do not link to the question requirement and sub-requirements;
- rough numerical workings, which are subsequently copied verbatim to form appendices;
- notes and rough workings that contain very relevant points which do not appear in the final report.

The feature of some scripts to which most markers reacted immediately was their relative brevity. Much less was written than in normal Final level papers. There were very extensive rough notes, answer plans, and mind maps – often occupying almost as many pages as the answer. Answers under 10 well-spaced sides excluding headings, tables of contents and terms of reference were frequent. It was not unusual to find 5-6 pages of answer planning, no rough number work, and then only 6-7 pages of core answer text. Clear and concise English could, in theory, say much in a little space – but there were relatively few examples of this. Most brief scripts provided little scope for markers to seek justification to award marks. There was too little evidence.

Analysing and interpreting numerical data

The problem with many weaker scripts was the poor approach to the part of the requirement to report on feasibility [including financial viability]. It was thought that this would encourage candidates to review the historical and forecast financial data provided, performing appropriate calculations, and commenting thereon.

To deal with responses to this requirement from weaker candidates, in ascending order of merit:

- some few candidates completely ignored the numbers, and none appeared anywhere in their scripts;
- a number made no calculations, but quoted numbers from the schedules provided. Whilst this would not allow any more than a token mark for numerical skills, it would allow candidates to gain marks for understanding the potential financing problem;
- a number provided a range of ratio calculations, mainly based on the Pre-seen material, but often updated to include new figures for 2001 and budgeted 2002. Comment on these figures was very limited, and sometimes altogether missing. Calculations of ratios were often poor. A frequent example was inability to adjust creditors under one year for the bank overdraft before attempting to calculate trade creditor days, even though the format was identical in the Pre-seen and Unseen material;
- for the forecast period [2002-2004] the Unseen provided unit sales, selling prices, cost and margins, and working capital requirements. It also provided capital expenditure requirements. The expectation was that candidates would use this to build forecast sales and profits, and the forward cash requirements. This is essentially the concern of the first course in budgeting, explaining how budgets are put together. A majority of candidates calculated sales and profits;

- progress towards the forward cash position was much less certain. The most frequent error was to attempt to construct cash flows using total working capital requirements, instead of using incremental working capital requirements. Those who attempted forecast balance sheets normally fared better;
- a number attempted to calculate project paybacks and DCFs for the USA development. The approach could be justified, but many attempts at such calculations were far from effective.

The basic problem with weak analysis of the financial data was that candidates who did not analyse the data had an incomplete understanding of the case scenario. The figures provided, just as much as the words, described the situation. Failing to comprehend the full situation often led to an incomplete understanding of the main issues, and recommendations which did not take all relevant factors into account. The marks affected were not just those for numerical skills, but also, to varying extents, the marks for prioritisation, structure, breadth and depth.

General problems

The overall impression gained was that many weaker candidates had not undertaken a minimum of practice on case questions under simulated examination conditions. It is difficult planning time and pacing an answer without the guidance given by separate marks for part questions, and this skill has to be learnt by practice and developing understanding. Performance can improve significantly with practice.

To some extent, but probably less than in May, some candidates had spent too much time trying to forecast the precise question, and preparing an answer to their chosen question. This was never likely to receive as good marks as an answer to the set question.

Candidates' performance in relation to the question set

This set of comments primarily relates to marginal scripts, many of which were subject to review.

Identification of Issues

Most candidates identified a good range of issues, but did little to separate the key issues from relatively minor issues.

The key issue of the directors' motivation was at best only briefly mentioned by most marginal candidates. There was scope to develop this further. Possible differences between the directors in terms of motivation, objectives, and future time scales are indicated in the scenario.

The problem of UK market saturation was rarely mentioned; there were clear reasons for IRS to seek new opportunities.

Feasibility

Most candidates dealt reasonably with the internal problems of IRS, but some possibly spent too much time on these problems. It was easy to get too involved in the need for better control systems and information systems, without recognizing that decisions on the future shape of the overall business would have to precede any useful work on system development.

The practical problems of expanding into the USA were dealt with reasonably well, but there was scope for considerably more discussion of these problems. Many candidates spent a considerable time on exchange rate risks and hedging, but these would be familiar problems to a company such as IRS sourcing materials and components from Malaysia and Japan.

Financial Viability

The analysis of the forecast data by marginal candidates was often limited to sales and operating profit data. Comment that was made that the growth rate implied was optimistic was rarely supported by comparisons with a calculation of the rate achieved by IRS to date.

There was often no attempt to review the cash situation implied by the forecast sales, profits, and forecast working capital. This part of the available data was not always taken into account in formulating answers.

It should have been feasible to expand the forecasts given to calculate the working capital requirements and compare these with the retained earnings. This could have been done in a number of ways, possibly by forecast cash flows, possibly by forecast balance sheets, with borrowings being the balancing figure after the calculation of retained earnings, fixed and working capital. The simplest way of recognising the key issue is by comparing operating profits per unit, and estimated retained earnings per unit, with working capital per unit.

Limited comment on current borrowings and gearing, and the need for better working capital management, was often valid, but a forward look at the developing situation was feasible and expected.

Recommendations

Recommendations were often broadly sensible but not clearly supported by reasons or the analysis in the report.

Weak candidates often failed to express a firm view on whether the company should proceed with the 2009 Vision or not. There is no “right” answer; marks are primarily for the logical support of the recommendation made.

The suggestion was frequently made that TBMC be developed in the UK; this was valid but required some expansion and justification.

Candidates’ performance against the criteria contained in the case study assessment matrix

Prioritisation

Most candidates identified a good range of issues. Marginal candidates generally scored reasonably here, but were limited by not segregating the key issues from the minor issues. Too often time was spent disproportionately on the minor issues, with candidates expanding detailed discussion based primarily on the pre-seen scenario.

Knowledge

There was scope to display relevant technical knowledge or to use a range of theoretical frameworks to analyse the situation and prospects of IRS, clarifying the situation, and improving the risk analysis.

Often, candidates showed recognition of some of the risks involved in the Vision, but failed to explain these risks clearly.

Numerical Skills

Calculations were reasonably well presented in appropriate appendices, but rarely accompanied with sufficient words explaining what the calculations meant and the implications for IRS.

The main problem was the selection of which calculations would be useful for the report. More calculations of financial requirements based on the forecasts were expected than were provided by marginal candidates.

Structure

There were a number of problems with marginal candidates, including:

- failing to make clear recommendations, other than the need for more information before any decision could be taken;
- making recommendations which were not consistent with the analysis;
- making different recommendations in different sections of the report. Recommendations should be in a separate section, and clearly identified. In some scripts they also appeared in sections labelled introduction, executive summary, conclusions, and often in all sections;
- making recommendations, but failing to explain the reasons for the recommendations.

There is a clear advantage in answer planning to deciding quite early what recommendations are to be made, and structuring the report to support these recommendations.

Business Communication

The written English was generally clear and appropriate for reports. Very few candidates fell below marginal fail. Most, including most marginal candidates, achieved a pass.

Format

Report formats were almost universally at least adequate.

Reports were easy to navigate, but sometimes less easy to relate to the specific question requirements.

A number of candidates devoted too much effort to format at the price of the time required to produce the expected content.

More thought must be given in future to turning clear blocks of the answer planning such as calculations and the use of strategic analysis frameworks into clearly identified appendices to the report.

Business Awareness

Most reports displayed sound commercial awareness, though there was some naive comment concerning bank attitudes to small business, and the difficulties of controlling debtors when faced by a small number of very large customers. More reading on a regular basis of the financial press would develop awareness of current practice.

Attempts to illustrate points made with real life examples were welcome, but not always effective; within limits these could have gained additional marks. The problem for many candidates was that the examples were appropriate, but explained at too great a length, and the original point was lost.

Breadth

Most candidates discussed a range of issues and achieved reasonable marks. There were some cases where candidates covered a range of issues in their answer planning and rough notes, but failed to mention some of these issues in their reports.

Marginal scripts often included discussion of a range of issues but with surprising major omissions.

Depth

Many marginal scripts were characterized by mentioning issues, but with very little supporting detail.

The discussion of the financial issues was often inevitably limited by the lack of analysis of the financial implications of the forecasts. There were some scripts where sensible analysis in appendices had not been translated into the report with any comment on the significance of the conclusions for IRS.

An overall view

Progress has been made since the first case study examination, but there is scope for considerable further improvement.

The main requirements for improvement are in basic examination technique, and in the skills needed to structure an answer to a case question.