



REPORT ON CANDIDATE PERFORMANCE

Results were again encouraging, as better for the Case Study than for the other Final level papers, even if not as good as hoped.

There are encouraging signs that candidates are responding in appropriate ways to the challenge of a new type of examination.

Indications of progress

1. Candidates [and lecturers] are accustomed to the format, and learning how to handle the examination. Fewer candidates are having problems in balancing the allocation of time between preliminary analysis, answer planning, and actually writing the required report. Few are obviously suffering from time pressure at the end of the examination. Probably most try to answer past cases under simulated examination conditions, and learn to pace themselves over the three hours available.
2. Standards of presentation are generally quite good. Written English tends to be at least reasonable and is rarely difficult to understand. Report layouts tend to be clear, but not necessarily the most effective for economical provision of the necessary recommendations.
3. Candidates generally did some research of the industry background, or read analyses prepared by lecturers, which enabled them to earn marks for business awareness. The industry concerned was easy to research.
4. Most candidates provided broadly sensible recommendations. However, there was a continuing problem, with candidates providing sensible recommendations almost totally unsupported with appropriate reasons.
5. The vast majority of candidates recognised from the 15 marks allocated to numerical skills in the pre-seen marking matrix that calculations were expected, and duly provided calculations. The quality of the calculations was mixed, generally disappointing.

Key problems with the Sparkle case

1. There was a significant problem with some unsuccessful candidates, who had placed too much reliance on their forecasting of the likely question, and effectively answered that question, rather than dealing with the quite specific requirement. Some question forecasting is desirable, probably essential. But candidates should realise that there will always be a range of possible unseen questions to follow any given pre-seen. Published analyses of the pre-seen material, for instance by Adrian Sims in CIMA Insider, BPP, and Foulks Lynch recognise this clearly. But there is always the temptation for individual candidates or lecturers to concentrate on one "most likely" question. This leads to candidates planning their answer in advance, and providing that answer, regardless of whether it answers the question actually asked. Unsuccessful candidates often discussed a range of ways of contesting a take-over bid – such as organising a management buy-out, or finding a white knight. Such approaches were interesting, but irrelevant, as were recommendations that, as company F had offered a good price, the offer should be accepted.

Candidates should review pre-seen material with greater caution, but should certainly use this review to forecast calculation techniques that may be useful, and could be revised, any technical knowledge that may be required, and analytical models that may assist in structuring their answers.

2. Calculations were often below the expected standard, and the lack of appropriate calculations often led to weak and inadequate recommendations. Candidates should have provided appropriate calculations – they were warned that calculations were expected by the 15 marks for numerical skills in the marking matrix, and the question that specifically required them to "Evaluate your proposed strategies." The difficulty, compared with a

project appraisal requirement in the previous case, was that candidates were not told how to evaluate these strategies – only the required result. While case studies may lead at times to a need for a project appraisal, it would be unwise to assume that this is an inevitable requirement. Other calculations may be needed, and the appropriate test of skills at final level is not of skills in processing numbers in set ways, which have already been tested at earlier levels, but in understanding which calculations may be appropriate.

Normal Key Problems

Many problems for unsuccessful candidates were very similar to those in previous case study examinations.

1. Reading and meeting the question requirement

The wording of the requirement provided clear guidance to the expected form of the report, broken down into sub-requirements, which was taken and used by most successful candidates.

The requirement did not specifically state the need for a position appraisal for Sparkle, but the marking matrix included 10 marks for prioritisation of issues.

The evaluation of strategies required specifically referred to return on capital employed and share price. A significant number of candidates calculated prospective returns on capital employed, and ignored the share price requirement.

The warning given in previous reports on candidate performance must be repeated. Case studies could be designed with a single very broad requirement – to advise. This would, of course, imply such sub-requirements as analyse and calculate as appropriate, and review feasible alternatives, and provide appropriate reasons for recommendations.

To date, the examination has not taken this approach, but has provided extremely clear and detailed guidance in the sub-requirements to the format of the expected answer. Future examinations may provide less specific guidance, which would permit allowing more marks for the design of the report under the format criterion.

2. Weak reasons for recommendations

The weakest part of many answers was the section of recommendations. The recommendations could be sound and broadly sensible, but there were at times no obvious reasons for recommendations, or it appeared from the discussion that a particular course of action was supported, but a final recommendations section took the opposite view. Candidates should read a requirement for recommendations as implying recommendations with reasons. Marks were allowed where it was clear from the previous analysis why certain courses of action were being recommended. Unfortunately this was not always the case.

3. Financial analysis

Numbers were disappointing for the marks available. Some candidates had clearly not prepared adequately for the examination. It is reasonably feasible to forecast a range of techniques that may be useful in the examination from the pre-seen information, and these techniques should be revised to ensure competent application to the pre-seen numbers and any new numbers provided on the day of the examination. Often it was clear that the pre-seen numbers had not been analysed prior to the examination.

Marks for numerical skills are for any appropriate calculations and the presentation of appropriate numerical data to management. But it would be unwise to interpret the matrix as saying that only these marks depend on the appropriate calculations. Further marks are in effect “tied” to this criterion, as it is only if the appropriate calculations are done, and appropriate data presented to management that further marks can be earned for the interpretation of this data, and appropriate commentary. These marks are part of the “depth” criterion. Failing to

complete calculations can also affect the recommendations made, and the reasons supporting these recommendations. This was particularly important in the Sparkle case as it was necessary to review whether the actions proposed would have sufficient impact on the share price to fend off the takeover bid.

4. Time allocation

The other major problem for many candidates was the balance between understanding the unseen material, undertaking any necessary analysis, planning an answer, and then writing the required report. A number of candidates spend far too much time on the preliminaries, and too little time on the required report.

Commentary on candidates' performance in relation to the question set

Prepare a report for the Sparkle Board that briefly discusses the take-over proposal from the perspective of the different stakeholder groups.

This was generally done at least reasonably well, with many candidates providing sensible commentary on stakeholders' interests and relative power.

A number of candidates dealt only with shareholders, ignoring other stakeholders. Most, however, dealt reasonably with likely employee views and concerns. It was surprising how many candidates ignored the club members.

Some candidates clearly ignored the word "briefly" in the requirement. Greater answer length in this part of the question tended to include more repetition of the case information, but little useful further commentary.

Some candidates in effect made this section into a position appraisal,. A short position appraisal introducing the report, supported by a SWOT analysis as an appendix, would have been more effective.

Recommend strategies which would enable Sparkle to deliver a sustainable improvement in financial performance and growth in its share price.

Provided that candidates focussed on strategies to increase profit or reduce capital employed, and did not stray on to all sorts of more general defences against takeover bids, the recommendations made tended to be sensible, and broadly feasible.

There were greater problems with the supporting reasons for recommendations, and the general discussion of the advisability of various courses of action. To provide a simple example, most candidates saw the scope for some level of cost reduction, and there were a number of ways attempted to quantify the potential savings. Many candidates discussed the problem of staff cuts and staff morale, but relatively few discussed the effect of staff cuts on service levels, and the potential impact on membership renewals.

Where calculations were limited, discussion tended to also be limited, as there was no understanding of the relative importance of various possible actions.

It was surprising how many candidates failed to appreciate the short and long term cash and funding problems, and did not take these into account in framing their recommendations. There is an implied question behind every case question – that recommendations should meet the specific question requirements is obvious, but they also need to be adequate to deal with the problems analysed in the position appraisal.

Evaluate your proposed strategies to demonstrate how Sparkle's share price and return on capital employed could be improved.

Most candidates provided adequate calculations for possible actions such as disposing of the loss-making clubs, at least as far as the effect on profit and on capital employed and return on capital employed. Fewer carried these calculations through to the effect on the share price, using the P/E ratio. As the P/E ratio appeared in the pre-seen, it should have been fully understood.

The surprising omission by many candidates was of any attempt to look at the overall impact on profit and the share price of a complete programme of actions. Even where the evaluations of the individual proposed actions was quite competent, there was often no real attempt to look at the overall impact of the programme.

Performance against the criteria contained in the assessment matrix

Prioritisation [of issues]:

This was usually marginally adequately done, with the major issues identified but not clearly prioritised.

The main difficulties were with the management problems of Sparkle, where few candidates recognised that shareholders might see new management as an opportunity for a new strategy.

There were also difficulties with the cash and funding situation – a controllable short term situation, and a more difficult long term problem in funding a very ambitious expansion plan. Some candidates entirely ignored the problem, and often proposed clearly unaffordable strategies.

Candidates would tend to score better marks on this criterion if they provided a separate introductory section to the report, and possibly a SWOT analysis in an appendix. They may also find it easier subsequently to provide more structured recommendations dealing with the problems revealed in the position appraisal.

Knowledge:

Marks are awarded for the use, not just the display, of appropriate technical knowledge.

Many candidates displayed knowledge of Porter's generic strategies model, and Ansoff's matrix; fewer made effective use of these models.

Analysis would often have been much improved by the use of appropriate models to define strategic options.

Weak candidates made no attempt to use analysis models.

Numerical Skills:

Marks were disappointing on this criterion, especially with relatively straightforward numbers.

While some errors occurred in calculations, often suggesting a lack of detailed analysis of the numerical material available in the pre-seen, the basic problem was not that of getting numbers wrong, but of not attempting sufficient calculations, especially regarding the share price, and the cumulative effect of a series of actions.

Structure [recommendations]:

Recommendations were generally sensible, but not always supported by clear justification.

Some candidates provided a very wide range of recommendations, almost a listing of the various strategies potentially available to fight off a takeover bid. Most of these proposals, such as

seeking a white knight, were irrelevant to the question of “a sustainable improvement in financial performance and growth in its share price.”

Business Communication:

Most candidates reached a standard that was at least adequate without being particularly good.

Format:

The vast majority of candidates provided reports that were easy to follow. Good use was made of appendices.

Some candidates need to review the format they are attempting to achieve, in terms of the time taken in styling the report, and the limited marks allowed for format. Time was often spent providing introductions, terms of reference, and executive summaries that added little to the sense of the report. These are all desirable in business reports – but there is limited time available, and these may have to be sacrificed to provide more depth of analysis and commentary, and better argued recommendations.

Business Awareness:

There was clear evidence of effort, whether by candidates or tuition providers, to research the industry.

Candidates were generally better at “name dropping” – mentioning various firms in the industry – than using industry knowledge to support arguments.

There was little indication of understanding the cost structure of the industry, with most costs being fixed.

Breadth:

Most candidates discussed a range of issues and achieved reasonable marks.

Depth:

This was often the weak part of even good reports.

Often sensible strategy proposals were not supported by adequate discussion of the strategies and their financial implications.

There was limited discussion of the risks involved in the various strategies.

An overall view

The standard is encouraging, but more needs to be done, particularly in improving numerical skills, commentary on the financial consequences of strategic choice, and broad discussion of the choices available.

It is important that candidates rely on their analysis on the day of the exact question requirement, rather than their forecast prior to the examination of the likely question.