

General Comments

This examination paper is designed to test the candidates' ability to demonstrate their understanding and application of the following key syllabus areas:

- The impact and influence of the external environment on an organisation and its strategy.
- The evaluation of financial performance
- The assessment of strategic position
- The evaluation of strategy options
- Corporate social responsibility
- The information technology requirements of an organisation
- Stakeholder analysis

It was encouraging to see a good level of application of knowledge of the key syllabus areas by many candidates, as would be expected at this level. However, it was very disappointing to see, once again, how few candidates could adequately carry out a strategic evaluation in Question 1. Part (b) of Question 1 was very poorly answered, with very few candidates able to provide more than a very basic financial analysis. In a 25 mark requirement (a quarter of the examination) one would hope for more than five or six ratios and an elementary comparison to industry averages. A vital aspect of the Business Strategy paper is that candidates demonstrate their ability to provide a quantitative and qualitative evaluation of strategic position. Such failings in basic management accounting skills should not be evident at this level.

It was again evident in many candidates' answers that there was a serious lack of knowledge and understanding of some of the fundamental Business Strategy syllabus areas. Many candidates scored badly on the Section B questions, which was indicative of a lack of depth in knowledge of commonly-used strategic models. While this examination covered many of the candidates' 'favourite' models, it should be noted that exam questions on such models will necessarily examine them in unusual or unconventional contexts. These models have been examined many times in the past, so candidates should not expect 'easy' questions on them.

While candidates seemed better able to apply their knowledge to the scenario data than in previous diets, this exam highlighted a major weakness that has not been evident for several sittings. Candidates are not reading the question requirements carefully enough, and consequently are scoring few or no marks on what should have been relatively straightforward questions. Examples of this included both parts of Question 2, parts (a) and (b) of Question 3, and both parts of Question 5. In this examination, it is a good idea to use the reading time to read the question requirements as well as the scenarios. Candidates should ensure that they understand exactly what they are required to do before answering.

Overall, this paper is a balanced test of the key syllabus areas and covers a number of well used strategic tools and models. Candidates should not find any surprises in this paper and a well prepared candidate should have no difficulty in both demonstration of syllabus knowledge and in the application of this to the various examination scenarios.

Note: In a number of requirements, the total number of marks in the marking guide exceeds the total available by a significant margin. This gives candidates the opportunity to cover fewer points in greater depth, or more points in less depth. However, candidates should recognise that depth of argument is desirable in answers to this paper, and a series of brief points will never be rewarded highly.

SECTION A – 50 MARKS
ANSWER THIS QUESTION

Question 1(a)

Using Porter's "five forces" model as a framework, evaluate the competitive environment in which CCC operates.

(15 marks)

Rationale

This question requires candidates to apply their knowledge of the ways that the business environment affects organisations, using one of the most common strategy analysis tools.

Suggested Approach

This question was intended to be an 'easy starter'. It was only necessary to identify, from the scenario, the major aspects of the business environment of CCC, and evaluate them within the 'five forces' framework.

Marking Guide

Marks

For correct identification of all five forces
For each force, up to 3 marks for discussion of the issues, and a further mark for concluding whether that force is weak, moderate or strong

1
4

Maximum marks awarded

15

Examiner's Comments

The first part of the question was generally answered well.

A few candidates decided to use this requirement as an excuse to write a detailed description of the five forces model. This was not required by the question, nor was it an acceptable answer. It therefore earned only one mark. A further small group of candidates discussed issues that were not mentioned in the scenario. This was unnecessary and meant that they missed a significant number of key issues that were clearly identifiable from the scenario data.

Common Errors

- Simply repeating the facts given in the scenario, with no explanation of why the issue was relevant or important
- Failing to 'evaluate' the forces, by concluding as to their strength.

Question 1(b)

Evaluate the financial position and performance of SSS, as at 31 December 2005.

(25 marks)

Rationale

This question is designed to test candidates' ability to evaluate the financial position and performance of an organisation as part of the strategy formulation process.

Suggested Approach

Answers should consist of a number of ratio (or other) calculations, followed by discussion of their possible cause and significance.

Marking Guide

Marks

For each appropriate ratio or performance figure calculated	1
For a basic comparison to the industry average	$\frac{1}{2}$
For further detailed evaluation/analysis/discussion, up to	$1\frac{1}{2}$

Maximum marks awarded

25

Examiner's Comments

Having clearly signalled that there were up to 12 marks available for calculation, and provided sufficient numbers to allow the calculation of about 20 ratios, it was a shock to find that most candidates were unable to provide more than six or seven. Ratio analysis is one of the most basic of management accounting skills, and is commonly used in the evaluation of customers, rivals and suppliers.

It was also horrifying that few candidates were able to provide anything more than the most basic of analysis. Stating that, for example, "SSS has a pre-tax margin of 7.7%, which is higher than the average for the industry" adds nothing to our understanding of its position. Similarly a comment such as "CCC has a pre-tax return on sales of 7.7% and is therefore more profitable than other organisations" hardly provides an insight into the performance of the organisation. Logically, if there are 'up to 12 marks available for calculations', that would imply 13 or more marks for analysis. Five or six sentences, however good, are unlikely to be enough to earn anywhere close to 13 marks.

When faced with a 25-mark question, one would hope that candidates would plan to spend about 45 minutes reading, thinking and answering. From the evidence, it appeared the average candidate had spent no more than half of the allocated time. Their reward was in the order of a third of the available marks. This is most depressing, and raises significant questions about the competence of such management accountants.

Many candidates complained that it was not possible to perform a thorough ratio analysis without data for previous years. Others pointed out that a 'balanced scorecard' analysis of SSS would have provided a better insight into performance. While both these comments are valid, and would each have received a mark, neither is sufficient justification for refusing to perform any sort of analysis at all. It is very common for management accountants to be asked to analyse incomplete data. The scenario provided sufficient numerical data for a competent candidate to provide a fairly detailed analysis of position and performance. Almost no candidates were able to do so.

A disappointingly low number of candidates recognised that the three requirements in Question 1 were linked by a 'storyline'. The analysis of the 'bargaining power of suppliers' in part (a) gave a number of clues as to the possible reasons for 'unusual' ratios in part (b). These ratios gave clues as to possible strategies and issues to discuss in part (c). Also, almost no candidates commented on the limitations of the 'industry averages' to the analysis. SSS is by no means 'average', and the organisation's ratios most often signalled the organisation's uniqueness, rather than 'better' or 'worse' performance.

Common errors

- Few calculations
- Little or no analysis
- Too much focus on CCC and not SSS

Question 1(c)

Advise the directors of CCC how the organisation might overcome the bargaining power of SSS.
(10 marks)

Rationale

This is a straightforward question testing the candidates' ability to identify and evaluate strategic options.

Suggested Approach

In order to 'advise', it is necessary to; identify a number of options, discuss the relative merits/problems of each, conclude and possibly recommend.

Marking Guide

Marks

Identification of an appropriate strategy
Discussion of each strategy, up to
Conclusion and/or recommendation, up to

1
3
2

Maximum marks awarded

10

Examiner's Comments

Most candidates were able to provide a number of suggestions, but these were often discussed very superficially. It was seldom recognised that there might be problems in implementing some of these strategies, and few candidates concluded or recommended.

Common Errors

- Little critical insight
- No conclusion/recommendation

SECTION B – 50 MARKS
ANSWER TWO QUESTIONS FROM FOUR

Question 2(a)

Using the value chain model, explain those activities that add value in the 2B organisation, BEFORE the e-retail investment.

(10 marks)

Rationale

This is a more difficult question than previously asked on this topic, as it only requires application.

Suggested Approach

A significant range of activities was described in the scenario. Each of them should have been classified with explanation, in the value chain model.

Marking Guide

Marks

List of value chain activities, or	1
A diagram	2
For identifying each value adding activity and correctly classifying it in the value chain	1
For explaining the classification of each activity	1

Maximum marks awarded

10

Examiner's Comments

This question was answered reasonably well by most candidates. Some, however, displayed weak understanding of the theory and an inability to spot 'clues' in the scenario. Very few marks were awarded to theoretical discussions of the model, nor was it possible to earn a pass mark without mentioning or applying the model.

Common Errors

- Duplication of activity under two or more headings
- A failure to recognise that supporting activities support primary activities
- Re-writing the facts from the scenario with little attempt at classifying the activities within the value chain

Question 2(b)

Identify those activities in the value chain of 2B that may to be affected by the e-retail investment, explaining whether the value added by each of them may increase or decrease as a result of the e-retail investment.

(15 marks)

Rationale

This question is designed to examine the candidates' ability to evaluate the impact of electronic commerce.

Suggested Approach

It was hoped that candidates would identify those activities identified in part (a) that would be affected by the investment.

Marking Guide

Marks

Identify the affected activity	1
Classify it in the value chain model	1
Explain whether value is increased or decreased	1

Maximum marks awarded

15

Examiner's Comments

This question was very poorly answered. The question clearly stated that candidates were to "identify those activities in the value chain...", thus directing candidates back to the analysis in part (a), as these are necessarily the activities in the organisation's value chain. Further, candidates were required to "...explain whether the value added is likely to...", implying that only those activities adding currently value were to be considered, and that the value added may well reduce.

Most candidates, possibly thinking about examples they had discussed during their studies (or Porter and Millar's work on IT in the value chain) chose a very different approach. They considered every category of activity in the value chain model, whether relevant to the 'pre-investment' 2B or not, and identified new activities that might be created by the proposed investment. Sadly, this earned few or no marks, and resulted in a significant proportion of candidates who attempted this question failing to reach pass standard. This was an obvious example of candidates failing to read the question requirement, and in so doing made the question much more difficult for themselves.

Common Errors

- Misinterpreting part (b) due to not carefully reading the question requirement

Question 3(a)

Briefly explain how the product life cycle model can be used to analyse the current product portfolio of 3C (that is, BEFORE the planned investment).

(8 marks)

Rationale

This question tests the candidates' ability to analyse the product portfolio of an organisation.

Suggested Approach

This question should be straightforward. It clearly requires the candidates to explain how a named model can be used to analyse something.

Marking Guide

Marks

Diagram, if given	1
Explanation of how the model can be used to analyse a portfolio, up to	4
Classification of current products in the model, with explanation, each at up to	1

Maximum marks awarded

8

Examiner's Comments

The answers to this question were generally weak. As the product life cycle is one of the candidates' 'favourite' models, many of them described in detail the characteristics of products at each stage, and the strategies that might be appropriate for each type of product. This was not required, and received no credit.

Virtually no candidates appeared to understand that a 'product portfolio' is a collection of products under common ownership. Thus, any analysis tended to look at the products individually, rather than collectively. The whole point of any type of 'portfolio analysis', be it financial or product, is to view the portfolio as a whole and to recognise the value of each product *to the portfolio*. A balanced portfolio is one that achieves the objectives of its owner.

Another common misconception is that the term 'product portfolio' necessarily refers to the Boston Consulting Group (BCG) matrix. This is incorrect. The BCG matrix is a model used to analyse an organisation's portfolio, as is the product life cycle. This question was *not* about the BCG matrix, so any discussion of it received no credit.

Again, this is a clear example of candidates not reading the question requirement carefully and instead of answering the question set, they have answered the question they wish had been set.

Common Errors

- Too much theory
- Too much BCG
- No discussion of the portfolio
- Very poor diagrams

Question 3(b)

Evaluate the potential impact of each of the three investment options (Alpha2, Beta and Gamma) on the product portfolio of 3C, referring to your answer to part (a) above.

(9 marks)

Rationale

This is a straightforward question testing the evaluation of strategic options within the context of a named model.

Suggested Approach

Candidates are required to consider whether each of three suggested strategies improves or worsens the product portfolio of the organisation.

Marking Guide

Marks

For the evaluation of the impact of each option on the portfolio, up to

3

Maximum marks awarded

9

Examiner's Comments

As in part (a), almost no candidates appeared to understand the concept of a product portfolio. Answers were therefore limited to saying that each product would move from 'point X' to 'point Y' in the life cycle. While true, this did not address the core of the question, so received minimal credit. Almost no candidates concluded, for each option, whether the portfolio was strengthened or weakened. Very few recommended which option to pursue.

Many candidates seemed to suggest that 3C should pursue all the options identified (though often in sequence, rather than at the same time). This was despite the comment in the scenario that the "...the three options are mutually exclusive (that is, they will only be able to invest in ONE of the options)". While I appreciate that the scenario for this question was a little longer than normal, candidates should use their reading time (and perhaps some of the exam time) to highlight issues such as this. If candidates are going to choose this kind of question then they must ensure that they take sufficient time to read it thoroughly.

Common Errors

- No discussions of the impact of each option on the portfolio
- Lots of re-writing of the information from the scenario, with very little added evaluation

Question 3(c)

Discuss the social responsibility implications of the three investment options, for the directors of 3C.
 (8 marks)

Rationale

This is a straightforward question testing application of candidates' knowledge relating to Corporate Social Responsibility (CSR).

Suggested Approach

Candidates are required to use their knowledge of CSR to discuss the implications of each of the three options. Answers could have been structured either 'option-by-option' or 'issue-by-issue'.

Marking Guide

Marks

Up to four issues discussed, each at up to
 Conclusion, if given

2
2

Maximum marks awarded

8

Examiner's comments

Most candidates were able to identify some issues, but failed to observe that investing in either Alpha2 or Beta had the consequence that no investment could be made in Gamma. Also, many candidates were short of ideas for the CSR implications of Alpha2 and Beta (price discrimination, product safety, honest advertising, true improvement in health). Instead, they simply repeated the arguments about pricing given in the scenario.

Common Errors

- Limited discussion
- Lack of understanding of CSR

Question 4(a)(i)

Distinguish between Business Process Re-engineering (BPR) and Process Innovation (PI), and explain the role of information technology in each of these techniques.

(6 marks)

Rationale

This question examines candidates' understanding of BPR and PI.

Suggested Approach

This is a very difficult question, as many texts are not clear on the distinction. Give two clear 'definitions', stressing the differences. Recognise that IT is generally an implementation tool for BPR, whereas it is often a change trigger for PI.

Marking Guide

Marks

Explanation of each, highlighting differences, up to
Role of IT in each, up to

2

2

Maximum marks awarded

6

Examiner's Comments

Many explanations were unclear and very similar. Some candidates failed to mention the role of IT in each, as required. Most candidates could provide a definition of BPR, but very few understood Process Innovation.

Common Errors

- Confusion
- No mention of the role of IT

Question 4(a)(ii)

Discuss whether, in your opinion, the Operating Theatre Information System (OTIS) implementation is an example of BPR or PI.

(4 marks)

Rationale

This question examines candidates' understanding of BPR and PI.

Suggested Approach

Apply the definitions from part (a) to OTIS, and conclude which one fits best.

Note – this is difficult to do when the two definitions are very similar or identical.

Marking Guide

Marks

Arguments for OTIS being one or the other, each at up to
 Conclusion, if given (and consistent with the arguments)

2
 1

Maximum marks awarded

4

Examiner's Comments

More confused than part (a), and sometimes with no conclusion.

Common Errors

- Confusion

Question 4(b)

Evaluate THREE benefits to 4D, and TWO benefits to society, of the Operating Theatre Information System (OTIS).

(15 marks)

Rationale

This question examines candidates' ability to evaluate a strategic option.

Suggested Approach

Do what the question says! Don't forget to 'evaluate' the benefits, though (i.e. say whether each is a major or minor benefit).

Marking Guide

Marks

For discussion of each benefit, up to	2
For evaluation of each benefit, a further	1

Maximum marks awarded

15

Examiner's Comments

Surprisingly well attempted, though few candidates evaluated the benefits.

Common Errors

- Benefits not evaluated

Question 5(a)

Recommend the information technology hardware and software that would be required by 5E in order to complete the Intranet upgrade project.

(10 marks)

Rationale

This question examines candidates' knowledge of IT hardware and software requirements.

Suggested Approach

Identify a few relevant hardware devices and some types of software, and justify each one.

Marking Guide

Marks

For identification of relevant hardware or software items, each at

$\frac{1}{2}$

For the justification of each, up to

$1\frac{1}{2}$

Maximum marks awarded

10

Examiner's Comments

Despite IT being a core topic in the papers of the management pillar, most candidates displayed depressingly poor knowledge. Hardware items were often random (PCs) and commonly irrelevant (printers) and software poorly described (a firewall) or irrelevant (an EIS). Most answers were little more than a list, despite the verb ("recommend"), and candidates often produced only *one* list, giving the impression that they were unaware of the distinction between hardware and software.

Note to tutors – do not ignore the IS/IT/IM section of this syllabus.

Common Errors

- Lack of ideas and a clear lack of knowledge of this syllabus area
- Poor explanation
- Confusion between hardware and software

Question 5(b)

Using Mendelow's stakeholder mapping model, identify FIVE major stakeholders of the Intranet project. Explain the classification you have given, within the model, to each stakeholder.

(15 marks)

Rationale

This question examines candidates' ability to carry out stakeholder mapping.

Suggested Approach

Candidates need to identify five stakeholders, classify each in the Mendelow model, and explain why each was classified as it was.

Marking Guide

Marks

Mendelow explanation, or diagram, if given	1
Identification of each stakeholder	$\frac{1}{2}$
Explanation of why power is high or low	1
Explanation of why interest is high or low	1
Classification, based on the above	$\frac{1}{2}$

Maximum marks awarded

15

Examiner's Comments

Some candidates, of course, provided a lengthy explanation of the model and its construction. This was, to a great extent, a waste of time. Some candidates 'invented' stakeholders (government, shareholders) rather than just using the ones mentioned in the scenario, and received no credit for them. Many candidates, in their explanation of classifications, simply stated that a stakeholder '...has high power and low interest', for example. This is not an explanation, and received no credit. Similarly, many candidates discussed level of power and interest in general organisational terms and not in relation to this intranet project, which again received no credit. Again, candidates are reminded to read the question requirement CAREFULLY.

Common Errors

- Invention of stakeholders
- Unclear explanation of power and interest
- Random classification of stakeholders with no explanation of power and interest