

### 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 preparation and evaluation of multi dimensional models of performance measurement
- The preparation of a benchmarking exercise and the evaluation of the results
- The evaluation of IS/ IT systems appropriate to the organisation's strategic requirements
- The evaluation of strategic options
- The impact of regulatory regimes on strategic planning and implementation
- The evaluation of strategies for response to competition
- Stakeholder groups and how they affect organisations.

It was encouraging to see a good level of application of knowledge of the key syllabus areas by some candidates in the Section B questions, as would be expected at this level. However, once again it was very disappointing to see how few candidates could adequately apply their management accounting knowledge to prepare an appropriate balanced scorecard or perform a benchmarking exercise in Question 1. Part (a) of Question 1 was very poorly answered, with very few candidates able to provide more than a very basic set of comparative figures. In a 25 mark requirement (a quarter of the examination) one would hope for more than a basic list of actual versus budget comparisons and a basic statement of whether the figures were higher or lower. Similarly in part (b) of question 1, few candidates were able to demonstrate a sound understanding of benchmarking, with most candidates providing only the most basic of calculations and comparisons which were subsequently not adequately evaluated as part of the benchmarking process. A vital aspect of the Business Strategy paper is for candidates to 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 answers that there was a serious lack of knowledge and understanding of some of the fundamental Business Strategy syllabus areas. Most candidates scored badly on Section A, which was indicative of a lack of ability and practice in the application of some of the key strategic techniques. The Section B questions were answered better by many candidates, and there was evidence of better application of knowledge, in particular in Question 2 and Question 4. However, as stated in previous PEGs, candidates have been examined a number of times in the past on several of the key models in the syllabus, so they should not expect 'easy' questions on them. There are still some candidates who fail to apply their knowledge as required in the question and instead re-write everything they know about a particular model. This is not acceptable at this level.

It is evident that candidates are still 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 include Question 1 part (a), where many candidates failed to make any attempt at preparing an appraisal and in part (b) also failed to recognise their role as a management accountant being requested to prepare a Board level report. This was also the case in Question 2 part (b), Question 3 (b) and in parts (b) and (c) of Question 4. 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 have found any surprises in this paper and a well prepared candidate should have had no difficulty in both demonstration of syllabus knowledge and in the application of this to the various examination scenarios.

SECTION A – 50 MARKS  
ANSWER THIS QUESTION

**Question 1(a)**

Prepare a balanced scorecard appraisal of the performance of AAA last year.

**(25 marks)**

**Rationale**

This question requires candidates to apply their knowledge of multi dimensional models of performance measurement, using one of the most commonly used tools, namely the balanced scorecard.

**Suggested Approach**

This question should be straightforward. As the balanced scorecard is well covered in the study texts and is an often discussed tool, it was expected that the candidates would have no problems preparing a well presented and well evaluated answer. The question clearly asks for an appraisal, therefore a basic preparation of comparisons of actual versus budget for each section of a balanced scorecard would not be sufficient to be awarded a pass mark.

**Marking Guide**

**Marks**

For correct calculations (½ for each) maximum

10

For insights into performance, or interpretation of calculations, (up to 2½ for each) maximum

20

**Maximum marks awarded**

**25**

**Examiner's Comments**

The first part of the question was very poorly answered.

Most candidates who failed the examination did so on the basis of their poor performance in this question. It is not acceptable at the strategic level to expect to pass the examination by preparing an answer with little or no strategic analysis within it. It was quite shocking to see how many candidates failed to get any further than comparing actual and budget figures for AAA, and whose analysis was limited to statements such as 'Gross profit is lower than budget'.

This question was worth 25 marks (or one quarter of the examination). Candidates should have planned to spend about 45 minutes reading, thinking, planning and answering this question. From the evidence, it appeared the many candidates had spent no more than half of the allocated time. There were 10 marks available for the calculations (and there were some candidates who easily attained these marks by providing several pages of comparative calculations). This should therefore have indicated to the candidate that there were a further 15 marks available for analysis and appraisal of the figures. However, for the vast majority of candidates, this appraisal was limited to bland statements such as "Actual Gross profit was 66% versus a budget of 68%. This is 2% lower than budget." This is hardly insightful nor does it go any way to attempt to explain why this may have occurred. There was plenty of information provided in the scenario, both financial and non-financial to provide plenty of pointers and clues as to the reasons for the poor performance and position of AAA.

Also, the poor level of interpretation was quite shocking. Few candidates recognised neither the severe cash problem of AAA nor the probability that this was most likely linked to poor working capital management. The working capital cycle was often misinterpreted with a number of candidates providing incorrect calculations for finished goods days and WIP days and thus making it difficult to provide any meaningful analysis. Many candidates thought that the number of days lost to disputes was worse than budget because it was lower, without thinking about the meaning of the calculation.

It would appear that few candidates have the ability to use all of the scenario information in a strategic way and to identify the most important issues. Most candidates merely look at the numbers given and undertake the most basic of calculations, with little thought to their relevance or significance. Also, few candidates were able to relate two or more facts (often the results of simple calculations) to identify and diagnose a strategic issue. A key role of the management accountant in practice is to work with incomplete data and information from a variety of diverse sources and bring this together to form a picture of the strategic position of the organisation. It would seem that few candidates who sat this examination have this skill, which is very worrying indeed.

A strong message must be sent out to candidates as a result of the poor performance in this question. This question was not difficult and covered a key strategic tool that is well covered in all study texts for this syllabus. Most candidates clearly demonstrated knowledge of the model, as would be expected, but at strategic level, knowledge of a key model is not sufficient to pass the examination. The candidate must be able to apply the model, to interpret its results and to appraise those results. To state that a figure is higher or lower than budget (without even saying whether that difference makes the variance 'favourable' or 'adverse') is neither interpretation nor appraisal. Candidates must practice real application of models such as this if they are to pass this examination.

*Common Errors*

- Basic financial analysis with no attempt at interpretation at all
- Interpretation limited to comments such as 'Actual ROCE is lower than budget'. These kinds of statements are meaningless without further qualification

### Question 1(b)

As the management accountant of AAA, prepare a benchmarking report for the directors that compares the performance of AAA last year with that of BBB for the same period. You should refer to your answer to part (a) in making your comparison.

(15 marks)

### Rationale

This question is designed to test the candidates' ability to prepare a benchmarking exercise and to evaluate the results.

### Suggested Approach

Answers should consist of a number of calculations comparing AAA and BBB performance, followed by an evaluation of the results. The answer should also have been presented in report format, with a Report Header and introduction and a concluding paragraph.

### Marking Guide

### Marks

|  |    |
|--|----|
| For Report Header and Introduction/ TOR  | 1  |
| For correct calculations (½ for each)  | 8  |
| For insight into performance, or interpretation of a calc, (up to 2½ for each) maximum | 10 |
| Report Conclusion  | 1  |

### Maximum marks awarded

15

### Examiner's Comments

This question was poorly answered. Similarly to part (a) candidates provided only the most basic of financial analysis with few candidates offering more than a statement of whether AAA's figures were higher or lower than those of BBB. Again, many candidates were able to obtain sufficient marks on the basic calculations, but they failed the question as a result of a poor (or absent) analysis of these calculations. There was sufficient detail in the text of the scenario to give the candidates enough information to discuss why BBB's performance was largely superior to AAA, despite being a smaller organisation. However, few candidates read beyond the numbers provided and consequently failed the question. There were 8 marks available for calculations, meaning there were a possible 7 further marks for analysis.

Most candidates did present their answers in the form of a report, but many neglected to identify that this was a Board level report. This means that the report needed to contain strategic level analysis, not basic comparative analysis.

### Common Errors

- Calculations limited to basic comparisons of AAA versus BBB
- Little or no analysis
- Too much focus on comparisons of the numbers and not enough focus on the strategic level context of the report

### Question 1(c)

Advise the directors of AAA how the introduction of knowledge management might lead to AAA developing a sustainable competitive advantage over BBB.

*(10 marks)*

### Rationale

This question tests the candidates' ability to advise managers on the development of strategies for knowledge management.

### Suggested Approach

This is a very difficult question. It brings together both knowledge management and competitive advantage and requires candidates to determine how knowledge management may result in competitive advantage. The question requires the candidate to demonstrate a brief understanding of both and then to use their understanding of knowledge management to advise how it could be used in AAA's generic strategies.

### Marking Guide

### Marks

|   |    |
|---|----|
| For a very brief introduction to knowledge management, maximum  | 1  |
| For a very brief outline of the generic strategies as ways to achieve a competitive advantage, maximum  | 2  |
| For each argument relating KM to competitive advantage (for example, by reference to cost reduction, differentiation or focus) up to 2 marks, maximum | 10 |

### Maximum marks awarded

**10**

### Examiner's Comments

This question was very poorly answered. Most candidates failed to recognise any link between knowledge management and competitive advantage and most answers either focused upon a discussion of knowledge management only or separate discussions of knowledge management and the generic strategies with no attempt to link the two. A number of candidates also incorrectly focused upon IS/IT strategies related to the introduction of organisational knowledge management.

#### Common Errors

- Focus upon knowledge management only or upon competitive advantage only
- Focus upon IS/ IT strategies

SECTION B – 50 MARKS  
ANSWER TWO QUESTIONS FROM FOUR

**Question 2(a)**

Explain to the Board of Directors why the objectives of CTC will need to change as a result of the privatisation of CTC and the deregulation of the market.

*(10 marks)*

**Rationale**

This question tests the candidates' ability to evaluate the impact of the changing relationship with the government and the changing importance of the stakeholder groups as a result of privatisation.

**Suggested Approach**

This should have been quite a straightforward question. The changing role of the government for CTC is a key issue, as is the impact of privatisation upon its key stakeholders. Therefore candidates should focus upon the impact of privatisation on CTC's objectives and how these will change, and the effect this will have upon the key stakeholders. A further key issue for discussion is the impact upon overseas expansion.

**Marking Guide**

**Marks**

Identification and explanation of up to five reasons objectives may change (such as overseas expansion, shareholder measures of performance, corporate governance, cost effectiveness, global expansion, increased competition, level of customer service) up to 2 marks each, maximum

10

**Maximum marks awarded**

**10**

**Examiner's Comments**

This question was answered reasonably well by most candidates. Most mentioned the pre-privatisation objectives of economy, efficiency and effectiveness and most were also able to identify the new role of the shareholders and their importance in setting objectives. The main weakness was the lack of focus upon the overseas expansion and its future importance as an objective for both the government and CTC.

*Common Errors*

- Insufficient number of arguments, or too little depth to earn 2 marks
- A failure to recognise the importance of overseas expansion as an objective

### Question 2(b)

Produce two examples of suitable strategic objectives for CTC, following its privatisation and the deregulation of the market, and explain why each would be an appropriate long term objective.

**(4 marks)**

### Rationale

This question is designed to examine the candidates' ability to recommend and justify appropriate strategic objectives.

### Suggested Approach

Candidates should be able to identify a number of strategic level objectives relevant to CTC's newly privatised status. The candidates should use SMART to identify long term objectives and not short term ones.

### Marking Guide

### Marks

- |  |   |
|--|---|
| • For each appropriate, quantified, timed objective (1 mark each)  | 2 |
| • For justification of each objective, with reference to an appropriate stakeholder or stakeholders with particular focus on the long term (1 mark each) | 2 |

### Maximum marks awarded

**4**

### Examiner's Comments

This question was not well answered. Many candidates failed to provide strategic level objectives, instead focusing upon short term measures such as profitability levels. Another common failure was the lack of quantification of the objective. For example, some candidates stated "to maintain its position of the main telecommunications supplier in C". Whilst a viable objective, it needed to be expressed in terms of levels of market share and a time frame for achievement. Similar unquantified objectives included "to be the leading global telecommunications provider" or "expansion into foreign countries", neither of which are measurable or time based. Similarly, some candidates also failed to justify the objective as relevant to CTC long term objectives. Many answers consisted only of the basic objectives listed with no attempt to explain why each is appropriate.

### Common Errors

- Short term instead of long term objectives
- No quantification of objectives or time frame – lack of SMART
- Poor explanation of the appropriateness of the objectives to CTC

### Question 2(c)

Advise the Board of Directors on the stages of an appropriate strategic planning process for CTC in the light of the privatisation and deregulation.

*(11 marks)*

### Rationale

This question is designed to examine the candidates' ability to apply a strategic planning model to a given scenario.

### Suggested Approach

This question is a gift. It is a very straightforward question for a well prepared candidate, using the rational planning model as a basis for the majority of the answer.

### Marking Guide

### Marks

- |   |    |
|---|----|
| • A description of each phase of the strategic planning process (only ½ mark each for a bullet point answer, only 1 mark if not applied to CTC) up to 2 marks each stage, maximum | 10 |
| • Statement qualifying that the process described is a deliberate process and that an emergent process is more likely   | 1  |

### Maximum marks awarded

**11**

### Examiner's Comments

This question was well answered. This was to be expected, as the rational planning model is core to the Business Strategy syllabus. The main weakness was the lack of application to CTC. A number of answers were mainly re-writing of the text book stages of the model with little or no attempt at real application of these stages to CTC in the light of the privatisation. For example, at the environmental analysis stage, few candidates discussed how the PEST should have included an analysis of potential competitors for the market in C and existing competitors in any foreign market into which it is considering expanding.

### Common Errors

- Very brief points
- Poor explanation of the appropriateness of the stages to CTC



### Question 3(a)

Advise the Board of Directors of the possible threats related to the patent expiries.

(10 marks)

### Rationale

This question tests the candidates' ability to advise how suppliers and customers may influence the strategic process.

### Suggested Approach

This question should be straightforward with a fairly simple analysis of the information presented in the scenario. It is clear that DDD is under threat from a number of the parties mentioned in the scenario and the candidate needs to identify these and determine the threat that each poses. A possible tool to assist in answering this question could be Porter's Five Forces model.

### Marking Guide

### Marks

Recognition of the current low supplier/customer power and barriers to entry

3

Lack of differentiation for DDD

1

Margins being squeezed by customers and suppliers

2

Supplier actions

2

Threat of new entrants

1

Pharmaceuticals unlikely to backward integrate

1

**Maximum marks awarded**

**10**

### Examiner's Comments

This question was reasonably well answered. Many candidates used Porter's five forces model to structure their answer, which was useful. However, some candidates attempted to apply all aspects of the model, which was unnecessary and a waste of the candidates' time. Clearly the main threats to DDD came from the customers, suppliers and possible new entrants and most candidates recognised this. Few candidates, however, recognised that as a private company, takeover is currently unlikely. A common mistake was that many candidates misunderstood the nature of patents, with many candidates referring to DDD merely overcoming the problem by renewing the patents in some way.

### Common Errors

- Lack of understanding of the nature of patents
- Focus upon irrelevant aspects of the five forces model

### Question 3(b)

Evaluate suitable courses of action that DDD might take to maintain its profits in the face of the threats identified in (a).

(12 marks)

### Rationale

This question examines the candidates' ability to evaluate strategic options.

### Suggested Approach

The answer to this question should follow on directly from the threats identified in part (a). Candidates should attempt to identify those threats raised in part (a) and present a strategic course of action to reduce or eliminate that threat. A suitable approach would be to use Ansoff's growth matrix to structure this answer. Also the use of Suitability, Feasibility and/or Acceptability would also be useful.

### Marking Guide

### Marks

Six or seven possible courses of action, each at up to 3 marks, maximum  
(1 mark only, if option not evaluated)

12

**Maximum marks awarded**

**12**

### Examiner's Comments

This question was generally not well answered. Most answers had little structure and failed to link back to the threats identified in part (a). Those candidates that used the Ansoff's matrix did better, but the main weakness was the lack of evaluation of the strategies suggested. The question requirement clearly asks for an 'Evaluation' of the suitable courses of action, and this was a clear example of candidates ignoring the question requirement. Many candidates mentioned the need to develop new patents and to invest in new research and development, and also the possibility of entering into a joint venture or partnership with suppliers. However, few used the suitability, feasibility or acceptability to evaluate these courses of action and as result, few candidates answered the question adequately.

#### Common Errors

- Lack of evaluation

### Question 3(c)

From your analysis recommend, with a brief justification, the most appropriate course of action for DDD.  
*(3 marks)*

### Rationale

This question examines the candidates' ability to evaluate strategic options.

### Suggested Approach

This question leads on directly from part (b), requiring the candidate to make a recommendation based upon the courses of action discussed. Clearly, it is important to only make a recommendation based upon those courses of actions already discussed in part (b). It is important that the candidate recognises the interests of the family and employee shareholders when making a suitable recommendation.

### Marking Guide

### Marks

Clear and justified recommendation based upon the discussions in part (b), up to 3

**Maximum marks awarded 3**

### Examiner's Comments

This question was reasonably well answered. Most candidates did use the answers presented in part (b) to make a recommendation but once again, many candidates failed to read the question requirement fully, and to justify their recommendation.

### Common Errors

- Repeat of part (b)
- No justification of recommendation

#### Question 4(a)

Advise the Board of Directors of the advantages to EEE of conducting a stakeholder analysis in the context of the proposed investment decision.

(5 marks)

#### Rationale

This question examines the candidates' understanding of stakeholder analysis.

#### Suggested Approach

This question requires the candidate to recognise the difficulties that EEE faces in undertaking the proposed investment decision and how an understanding of the various stakeholder groups could help. A discussion of Mendelow's matrix was **not** required for this answer.

#### Marking Guide

#### Marks

Identification and justification of each advantage (2 marks each, up to)  
 Recognition that strategies without stakeholder support will fail

4  
1

**Maximum marks awarded**

**5**

#### Examiner's comments

This question was generally well answered, with most candidates recognising the need to have stakeholder support if the investment is to go ahead. Also, most also recognised the importance of focusing upon gaining the support of those with the most power and interest over the decision. However, many candidates wasted time discussing unnecessary theory with little attempt at application. Some candidates also spent too long identifying the stakeholders at this point, which was not required until part (b) of the answer and gained no marks in this part of the answer. Overall, most candidates made a good attempt at this answer.

#### Common Errors

- Theoretical discussions of Mendelow matrix
- Focus upon individual stakeholder groups (not required until part (b))

#### Question 4(b)

Analyse the principal stakeholders in EEE in the context of the proposed investment in the new process.  
(15 marks)

#### Rationale

This question tests the candidates' ability to recognise and discuss stakeholder groups and how they may influence an organisational decision.

#### Suggested Approach

This question should be a gift for candidates. Although stakeholder mapping has been examined before, this question requires the candidates to apply the understanding of stakeholder power and interest in the context of an organisational decision and not the organisation itself. Therefore it is important that the candidate only focuses upon those stakeholders who would be interested in this decision and not the organisation itself.

#### Marking Guide

#### Marks

|  |    |
|--|----|
| Identification of stakeholders (½ mark for each identified, up to)   | 4  |
| Discussion of power over, and interest in, the decision (up to a further 1½ marks each), maximum                     | 10 |
| Recognition of the complexity of overlaps of stakeholder groups (e.g. employees being local residents and employees) | 1  |

#### Maximum marks awarded

15

#### Examiner's Comments

This question was generally well answered. Most candidates identified the key stakeholders in the decision and could identify their level of power and interest. However, many candidates failed to adequately focus upon the decision itself and instead discussed the stakeholders influence over EEE as an organisation. Also many candidates spent too long discussing irrelevant stakeholders, such as the national government, general suppliers and the media. Few candidates recognised the complexity of stakeholder analysis and the overlaps of some of the key stakeholders such as the employees living close to the factory and the local government.

#### Common Errors

- Focus upon non relevant stakeholders
- Theoretical answers with little application to the scenario

#### Question 4 (c)

Recommend an acceptable course of action to the Board of Directors in the light of the stakeholder analysis conducted in (b).

(5 marks)

#### Rationale

This question tests the candidates' ability to recommend an organisational approach in relation to government and society.

#### Suggested Approach

This question gives the candidate an opportunity to interpret the situation as described in their answers to parts (a) and (b) and identify how EEE might achieve some favourable public relations with regard to the investment decision. The answer to this question should not merely focus upon Mendelow's strategies of 'keep informed', 'keep satisfied' etc, but instead should identify the positive actions that the Board of Directors should undertake to ensure that the decision goes ahead and is acceptable to the majority of stakeholders.

#### Marking Guide

#### Marks

|  |   |
|--|---|
| Recognition of a conflict situation                            | 1 |
| Recommendation of whether to go ahead or not with the decision | 2 |
| Suggestions for good public relations actions                  | 2 |

#### Maximum marks awarded

5

#### Examiner's Comments

This question was poorly answered. Most candidates merely discussed the strategies for key stakeholders as suggested by the Mendelow matrix, which was a repeat from part (b) for many answers. Most candidates failed to recognise the importance to EEE of undertaking the decision and how the Board needs to ensure the key stakeholders identified in part (b) could be kept happy.

#### Common Errors

- Repeat of suggestions made in part (b)
- Lack of focus upon specific courses of action to ensure decision goes ahead

### Question 5(a)

Advise the board of the advantages of adopting a formal approach to competitor analysis.

**(10 marks)**

### Rationale

This question tests the candidates' knowledge of competitor analysis and competitive strategies.

### Suggested Approach

This should be a very easy question as competitor analysis is a key syllabus area, well covered in all syllabus texts. A suitable approach to this question would be to firstly identify why FFF should undertake this approach in the light of its current position.

### Marking Guide

### Marks

For each advantage identified and discussed, up to 2 marks

10

**Maximum marks awarded**

**10**

### Examiner's Comments

Question 5 was the question most avoided by candidates, despite it being a very straightforward question. Although generally well answered, many candidates' answers lacked depth and many failed to recognise its importance in determining FFF's own strategies to maintain its market position. Most candidates focused upon finding out about competitors without recognising its importance in helping to formulate FFF's own strategies. Some candidates also incorrectly focused upon the word 'formal' in the question requirement, structuring their answer around procedural issues such as formal documentation and properly held meetings etc.

### Common Errors

- General answers not focused upon FFF
- Focus upon the word 'formal'

### Question 5(b)

Advise the directors of the stages in a formal competitor analysis process and identify any information that would need to be gathered at each stage for FFF.

*(15 marks)*

### Rationale

This question examines the candidates' knowledge and understanding of formal competitor analysis and the ability to apply this to a scenario.

### Suggested Approach

For a well prepared candidate this should be a gift, requiring the application of the stages of competitor analysis to FFF. This aspect of the syllabus is again well covered in all syllabus texts but it is important to ensure that this is thoroughly applied to FFF at all stages of the process.

### Marking Guide

### Marks

|   |   |
|---|---|
| Identification of each stage ( ½ mark each, up to)                            | 5 |
| Description of each stage, and the information required ( ½ mark each, up to) | 5 |
| Justification of each stage ( ½ mark each, up to)                             | 5 |
| Clear reference to FFF  | 1 |

### Maximum marks awarded

**15**

### Examiner's Comments

This question was reasonably well answered, with most candidates displaying some knowledge of the stages of the competitor analysis process. However, as in many other questions the main weakness was the lack of application to the given scenario. Some answers were mere descriptions of each stage and some were lists only. Most candidates failed to include the information that would need to be gathered at each stage again demonstrating an inability to read the question requirements properly. Most candidates made only fleeting reference to FFF in most of their answer.

### Common Errors

- Lack of knowledge of competitor analysis process
- Limited application to FFF
- List or basic bullet point answers