

TOPCIMA - November 2006 - Post Exam Guidance report

1.0 General Overview

The purpose of this report is to give help and advice to candidates who were not successful at this sitting. This report will explain what the examiner was looking for in candidates' answers and will explain where common mistakes were made by candidates sitting this exam. The main reason for some candidates failing was not what they wrote was wrong, but important elements were omitted from their answers.

This report will also hopefully be accessed by candidates planning to sit a future TOPCIMA exam, and the advice given in this report is not necessarily specific to this case, but can be taken and used to improve candidates' understanding of the higher level analysis skills required to pass this final CIMA exam.

As always in CIMA exams, it is quality, NOT quantity, which is important. It is often the recommendations at the end of your report and the judgement you have displayed throughout the report that will determine whether your report will pass or fail. So good time management is crucial in order to allow adequate time to prepare detailed, fully justified recommendations.

TOPCIMA is a case based exam, with the pre-seen material published over 8 weeks before the exam. The pre-seen material "sets the scene", which in this case was about a clothing manufacturing company called Kadgee set in the declining clothing manufacturing industry in Europe. The pre-seen material also gave details on two other very relevant issues:

- Growing competition from China
- Kadgee's growing cash deficit

TOPCIMA has no catches, and despite what some candidates might think, the examiner wants you to pass! There are no tricks or hidden messages – the exam is simply about writing a report to the board of Kadgee which:

- Prioritises the issues facing the company
- Analyses the alternative strategies and issues
- Makes sound, feasible recommendations on how to address the issues that you should already have identified.

In this exam, there is a need to use all of the skills you have learned from previous TOPCIMA exams. This includes Business Strategy and Financial Strategy in particular. Therefore, whilst you have already passed these papers, it is still necessary to revise and to use relevant business and financial strategy techniques and to apply these to the case material.

The assessment matrix has 9 criteria which each carry a range of marks and there are now 20 marks available for Judgement and 20 marks for Logic. Therefore these two criteria will have a significant impact on the total marks awarded. It is in these two criteria that improved efforts by candidates are required in order to be successful in this exam.

The industry setting for the November 2006 TOPCIMA case was the clothing manufacturing business which has become even more competitive for European based Kadgee, as it faces increased competition following the erosion of import quotas from China into the EU. The problems facing Kadgee, as well as other European manufacturers, are the substantially lower cost base in China and the huge increase in imports which are forcing many European companies to cease trading. This is a very real life situation facing many real companies, a notable one being SR Gent

(which used to be a key supplier to Marks and Spencer) which was forced to cease trading at the end of 2005.

The case material presented to candidates on exam day included a number of new issues, including the recruitment of a new Managing Director and the changes she has already implemented, together with four proposals:

- To set up manufacturing on its own in China
- To accept an offer to form a Joint Venture with Xina in China
- To set up manufacturing elsewhere in Asia (not China)
- To invest further in IT

There were also two other issues that were very relevant. These were:

- Low staff morale, which has affected production quality, and the dismissal of one employee has sparked the threat of a potential strike. A strike at this time could delay cash receipts, disrupt production and cause major problems and candidates should have identified that this is a crucial issue that should be dealt with as a priority
- Kadgee's worsening cash situation and a reminder from PGB (Kadgee's bankers) that its overdraft could be recalled if the agreed limit were exceeded.

There were two articles on the CIMA website to assist candidates in their research, and these are "Hanging by a thread" by Adrian Sims and "Riches to Rags" by Shuaib Masters. Both of these articles analysed Kadgee's current position and identified the poor cash situation and the need to change. It is recommended that the CIMA articles are thoroughly read in future, as they give a good analysis of the pre-seen case material.

From marking and reviewing scripts from the November 2006 TOPCIMA exam the following points are relevant to candidates who were not successful:

1. The subject of growing competition from China was given in the pre-seen material and was a direct hint that something on China could come up in the unseen material – and it did! Also, any candidate who undertakes any research on the European clothing industry would find what a huge impact China is having on this industry. Therefore it was expected that candidates would have been well prepared to evaluate a move of some, or all, of Kadgee's manufacturing base to China. This is the first time a direct reference to a topic has been given in the pre-seen material. Therefore it was especially disappointing that many candidates had clearly not researched a potential move of Kadgee's manufacturing base to China and instead simply repeated the case material back in their answer. There was a need to research the possibility of how Kadgee could get established in China, and research would have demonstrated that a Joint Venture is the usual route, as it would be almost impossible to establish a manufacturing base on its own due to barriers of entry established by the Chinese government.
2. The main reason for many candidates failing was the complete absence of discussions and recommendations on cash management and financing issues. Throughout the CIMA syllabus and previous exams, the emphasis on the importance of cash has been stressed. The pre-seen material gave details on Kadgee's worsening cash position, as well as a detailed cash flow statement – and still many candidates (perhaps around 40% of all candidates) chose not to discuss cash at all. If Kadgee does not manage its cash in the short-term, it will simply cease trading and there will not be a company to transform.
3. The other aspect of the point on cash is in respect of financing issues. Many candidates simply made their recommendations to either accept the Joint Venture with Xina (at a cost

of €8.0 million) or to set up a manufacturing base elsewhere in Asia (at a cost of €7.0 million) as well as recommending the implementation of the IT proposal (at a first year cost of €1.3 million) with no comments at all on how this could be financed. Furthermore, for the candidates that did discuss financing of their recommendations, there were some totally unrealistic comments from some that the funds could be raised by a flotation (which given Kadgee's precarious financial position is very unlikely to be possible and also it would take about 2 years – not an instant “fix”) or by borrowing from its customers or even borrowing from employees! None of these methods of raising finance were suitable for an unlisted company like Kadgee, which is sliding towards liquidation. The only possible ways to raise finance for the proposal would be debt finance secured on the new assets or for Kadgee to factor its debtors.

4. Far too many candidates totally ignored the potential strike and did not discuss it at all, or even worse, some candidates stated comments such as “If Kadgee move to China or Asia, the strike will not be a problem as the European factories will be closed”. This type of naïve comment demonstrates a lack of understanding that the European factories will need to remain open for around a year until transfer of production is made when the new overseas factory is operational and that Kadgee would still need its employees to be motivated, so as not to detract from the quality of its output. This type of comment on HR matters does not reflect well on the candidates who are at the final CIMA exam level.
5. Furthermore, far too many candidates simply stated “sell the factories” (which the case material stated were worth around €12 million), without any discussion of other relevant issues, such as:
 - Kadgee's existing loans of €4.5 million are secured on these assets
 - If Kadgee were to close and sell the factories now, how would it fulfil its current contracts to supply its customers? The proposed new factory in China or elsewhere in Asia would not open until later in 2007.

There was little recognition of capacity issues or the timing of the sale of the factories. Some candidates even included the sale proceeds and the investment in the proposed move of Kadgee's manufacturing base happening exactly on 1 January 2007, with little consideration that land and buildings take some time to sell, even if a buyer could be identified, and that the new factory in China or Asia would not be operational until later in 2007. The transfer of production would need to be managed and be seamless to its customers.

6. There was a lack of strategic thinking, as only a small number of candidates suggested that Kadgee could be sold or could go into voluntary liquidation. The shareholders could possibly receive greater funds from the sale of its assets including the land and possibly its Intellectual Property, even after repayment of the secured loans on the assets, and that this was a possible exit route for the shareholders of this private company. This possible route is discussed in the Adrian Sims article “Hanging by a thread”.

Overall, the biggest threat facing European clothing manufacturers is their high cost base versus the competition from those companies operating in low cost areas of the world. This problem can be dealt with in a variety of ways including outsourcing with minimal set-up costs, or the use of outsourcing as a temporary measure to enable some of Kadgee's factories to be sold now.

Many candidates failed this particular TOPCIMA examination as they had not discussed many of the issues facing Kadgee and had not discussed cash management or how the proposed move could be financed. The examiner was not being strict in respect in requiring discussion of all of the issues. For example it was possible to pass if the potential strike had not been discussed, or if cash management had not been discussed etc. However, it was not possible to earn sufficient marks

across the nine criteria if the potential strike, cash management as well as the financing of the proposed move had all not been discussed.

It is recommended that all candidates should read the financial pages of a good newspaper at least once a week, in order for them to gain the appreciation of the business world that this CIMA exam is trying to prepare them for. This would enable them to gain a far greater understanding of how companies operate and hopefully would reduce the number of non-sensible comments appearing in their reports in future.

Greater consideration needs to be given to the practical impact of the case, rather than repeating theoretical strategies, with little understanding of their relevance to the strategic decision making process.

2.0 Areas that were well attempted by candidates

The format of candidates' reports remains very good, with almost all candidates identifying and prioritising the top 5 (or more) issues and justifying the rationale behind their ranking. Technical knowledge was good and in many scripts was applied well to the case material, although calculations continue to include careless errors by a sizeable minority of candidates. For example the NPV's of the two locations in Asia were given in the question and most candidates were able to calculate the expected value at €8.0 million, but some candidates then deducted the capital investment cost of €7 million from this to show a NPV of only €1 million. The NPV figures given in the question had already included the capital investment cost and therefore this careless error demonstrated a lack of understanding of what the NPV figures represented.

Recommendations were also good in some candidates' reports, which showed clear reasoning as to how they reached each of the recommendations – and it is this justification behind the recommendation that will earn higher marks than the recommendation itself. Also, many candidates did correctly prepare recommendations for all of the issues which they had identified, prioritised and discussed earlier in their report. However, candidates earned lower marks in Logic in this exam, compared to previous TOPCIMA exams, as in many cases there were no recommendations on important issues relevant to the case, which in this instance included cash management and financing issues.

Ethics were generally well answered with high marks being earned in this assessment criterion.

3.0 Areas that were not well attempted by candidates

The four areas that had not been well attempted in the November 2006 exam were:

1. Poor display of business judgement on a range of issues. Many candidates did not identify Intellectual Property as a risk if clothing were to be manufactured in the Joint Venture with Xina in China
2. Many candidates did not identify or discuss the risk of strike action, following the dismissal of Rita Scree.
3. Lack of discussion and recommendations on cash management and financing issues.
4. Some candidates failed to make conclusive recommendations and therefore did not get awarded the marks available for advising the Board. It is acceptable to state "I recommend that Kadgee accepts the Joint Venture with Xina subject to checking that the lead times are acceptable for Kadgee's customers". Whereas some candidates stated that until lead times are agreed with customers, and until the factories are sold, a recommendation could not be

made. In the TOPCIMA exam, the examiner is looking for the candidate, in the role of a consultant, to advise on the strategic issues.

Candidates need to gain a far better understanding of the business environment in which they will find themselves working when they qualify as an ACMA. This can only be done by reading more widely in general, researching the industry setting for any future TOPCIMA case they plan to sit and also by revising the syllabus of the three CIMA strategic level exams, especially Business Strategy and Financial Strategy. These are not subjects that you have learned only to pass that specific exam. These subjects and skills are relevant also for TOPCIMA but additionally will continue to be relevant for your future career. Business and financial strategies should not be learned simply to pass a CIMA exam.

4.0 Assessment matrix and areas for improvement

4.1 Overview of the TOPCIMA Assessment matrix

The examiner was very pleased with the format of candidates' reports although the discussion was often "thin" and lacking depth of analysis and many of the calculations made were not even referred to in the report. If you prepare a calculation you must discuss the results within your report.

However, the analysis of the alternative strategies and the recommendations (marked in Judgement and Logic respectively) were weak and it was these two criteria which carry 40% of the marks. Therefore, whilst reasonable marks were awarded in the other 7 criteria, the two criteria in which is important to earn high marks in, were very poorly answered and it is Judgement and Logic that need to be significantly improved for the future.

Ethics was also quite well dealt with by many candidates, although the recommendations and advice on how the ethical dilemmas could be overcome were often weak and unjustified, resulting in low marks for some candidates.

In this exam, only about half of candidates earned pass marks in prioritisation, despite almost all candidates preparing a prioritised list of the issues facing Kadgee. Prioritisation is very important. The time taken to think about the issues presented to you, and to consider which are more important to the company is time very well spent. The examiner considered that the potential strike following the dismissal of Rita Scree, and the effect that a strike would have on Kadgee's customers, made this issue a high priority.

However, Kadgee's dangerously high overdraft was also of concern, as were the alternative strategies to relocate Kadgee's manufacturing base to a lower cost country. So there were many issues that could be highly ranked. The examiner considered that the potential strike should be placed within the top 3 priorities. If Kadgee's employees were to strike (and they have little to lose as they will lose their jobs anyway if Kadgee does relocate to China or elsewhere in Asia) this could have disastrous consequences on meeting the demands of customers' orders and could result in a further loss of customers. If this were to happen, then Kadgee could cease trading, before any of the strategic moves were even decided. Additionally, to gain the full 10 marks, it was necessary for candidates to have the need to reassure PGB (Kadgee's bankers) and have manufacturing in China in the top 5 priorities and for justifying the ranking of the priorities.

In this exam, some candidates only discussed China very briefly and this resulted in them not earning many of the marks available in many of the assessment criteria and resulted in them failing. China is such a key threat it cannot be left for another year or two, or while Kadgee sorts out its cash flow problems. Competitive forces are happening despite what Kadgee does or does not do –

so the time is right to assess what Kadgee should do about its manufacturing cost base now, before it loses another customer.

The marks available in the assessment criterion of Judgement are now 20 marks (the same as Logic) making it even more important for candidates to display a good degree of professional and commercial judgement throughout their reports. Marks are available in Judgement on a range of key strategic issues, the display of professional advice and good sound commercial judgement leading up to the recommendations that will be made later in the report. This is a key area of weakness for many candidates and is an area that needs to be improved.

There are two ways to improve your commercial awareness and professional judgement:

- More widespread reading and research into business in general and the industry in particular. See what other companies have done, which companies have not made decisions in time and have ceased trading and why. You must read the financial pages of a good newspaper at least once a week and you will notice a good range of relevant articles in every paper. This helps you to appreciate the real world of business and should help add credibility to your comments and recommendations. Research and reading need not be restricted to reading newspapers (although this is recommended), as another convenient source of information is the Internet and the ability of search engines such as “Google” to identify news stories on specific topics or industries.
- Practice, practice and more practice. Work through past cases (at least 2 cases is recommended) in order to improve your skills and compare your answers for past cases to the published case writer’s answers. Where you have omitted key points, these should be noted, as there are important themes that recur, such as adding value, maximizing shareholder value, the importance of cash, long-term strategic objectives etc.

4.2 Technical

There were 5 marks available for Technical in the November 2006 exam assessment matrix, and many candidates earned high marks for a good display of relevant technical knowledge as many candidates produced at least 3 theories or analyses that were relevant to Kadgee, including a SWOT, a PEST analysis, references to Porter, Ansoff etc.

There was ample opportunity for the display of a wide range of techniques, including any of the following:

- SWOT analysis
- PEST analysis for the proposed move of some manufacturing to China
- The use of the Johnson and Scholes model to structure the answer when evaluating the suitability, acceptability and feasibility framework of the proposed move of Kadgee’s manufacturing base to China or elsewhere in Asia
- Porter’s Generic Strategies to demonstrate that Kadgee differentiates itself on quality
- Porter’s five forces to demonstrate that new entrants are able to compete with Kadgee due to low entry barriers
- Mendelow’s stakeholder analysis which should analyse the many stakeholders that Kadgee has including its employees and the bank.
- BCG matrix and life cycle analysis, as well as motivational theories put forward by Herzberg and Maslow

The recommended reading text is Elsevier’s TOPCIMA Learning System, which has a whole chapter on techniques that should be revised and learnt so that relevant techniques can be applied to the TOPCIMA case you are sitting (details on www.cimapublishing.com).

4.3 Application

The Application criterion carries 10 marks and is used to reward candidates for applying technical knowledge (both theories and calculations) to the case material.

In order to earn high marks for your SWOT, the “Threats” quadrant should have included references to at least 3 specific threats which were increased competition, the threat of competition from imports from China and the potential strike. Surprisingly, many candidates had omitted “China” from the threats in their SWOT. If you were to research any clothing manufacturing company in Europe and identify what threats they are facing, the answer would be China and poor cash flows. Remember - it is necessary to incorporate all of the new information given in the unseen material on exam day in order to earn high marks, not simply writing a pre-prepared SWOT.

Similarly, a PEST analysis should have been prepared incorporating points relevant to the proposed manufacturing of clothing in China for higher marks. There were some very good uses of technical knowledge applied to the case material which also earned marks.

However, the calculations were disappointing, especially the NPV calculations for the Xina Joint Venture. Most candidates prepared only the expected NPV and did not calculate the high and low sales scenarios, and many candidates made careless mistakes and did not calculate the NPV correctly. In this final CIMA exam, it is expected that NPV calculations should be prepared accurately.

There were a range of calculations that could also have been prepared which would have earned the marks available, including:

- Preparation of financing statement using the €12 million from the sale of the land, less redundancy and clean up costs. However, many candidates omitted to deduct the loan that is secured on the European assets, which overstated the amount available to fund the Joint Venture or to set up in Asia (not China).
- Calculation of alternative financing methods, such as a new loan or funds that could be raised by debt factoring
- A comparison of the Asia (not China) NPV of €8.0 million to Kadgee’s share of the Joint Venture NPV of €17.5 million.
- Calculation of the revenues required for the IT proposal to break even. Most candidates simply showed that with only 1 customer, BBZ, the proposal would result in a loss. This simple calculation was not awarded marks, as the data was given in the case material. Any sensible analysis that showed what level of revenues would be required in order to produce a positive NPV was awarded marks.
- There were marks available for any relevant calculations of what Kadgee could be valued at for either a trade sale or if it chose to go into voluntary liquidation.
- Relevant ratios for Kadgee on working capital management and inventory turnover.

4.4 Diversity

The assessment matrix weighting for Diversity had again been allocated 5 marks and many candidates earned good marks for industry awareness and relevant comments on many European clothing manufacturers and indeed other manufacturers who have relocated their manufacturing base to Asia or to China.

Candidates were awarded marks for commenting that many European clothing companies have ceased trading over the last few years due to increased competition from low cost (but good quality) clothing manufacturers based in low cost areas of the world, especially China following the ending of the Multi-Fibre Agreement (MFA), allowing Chinese imported clothing into Europe to increase rapidly during 2006.

Generally, there was a reasonable awareness of manufacturing in China, which was demonstrated by reference to wage levels, lead times, quotas and examples of companies which have already chosen to relocate. Additionally, many candidates chose to quote the company SR Gent, a UK manufacturer which used to supply Marks and Spencer, which has now ceased trading. SR Gent chose to outsource some of its production to Asia but had not invested in its own manufacturing base, and the quantity and timing of its outsourcing was too little too late for the company to survive. It was disappointing that few candidates recognised that Kadgee's problems were typical of the whole European manufacturing scene, within the clothing industry, as well as other industries.

In summary, high marks were awarded in this criterion for good industry awareness from many candidates and relevant real life examples had been quoted, but the information about the real life companies was often not considered when preparing the rest of their report.

4.5 Focus

There were 10 marks available in the assessment matrix for the Focus criterion, for discussing the issues raised in the case. There was the opportunity to earn marks in Focus for the recognition of the need for Kadgee to deal with the fundamental issue of declining profitability and the need to move its manufacturing base out of Europe to a lower cost country. The majority of candidates did correctly identify the issue of declining profitability, and earned reasonable marks here, although some candidates, particularly non-UK candidates, did not discuss the threat to Kadgee's very survival in this industry.

There were also marks available in Focus for discussion of the other key issues in this case, which were the potential strike, the proposals to move Kadgee's manufacturing base to China or to elsewhere in Asia, the financing strategy for the proposed move, the IT proposal and the management of cash.

However, many candidates only discussed the proposed Joint Venture with Xina and did not discuss Asia or the IT proposal at all. Furthermore, far too many candidates totally ignored Kadgee's cash problems and also did not discuss how any move of Kadgee's manufacturing base could be financed. There were a disappointingly large number of scripts which suggested that additional funding might be raised from a rights issue, a stock market flotation or by approaching a venture capitalist. All of these methods of raising finance were not relevant to Kadgee at this point in time (although possible in the future if Kadgee is able to turn itself around) and the idea of a venture capitalist investing in a low margin company facing liquidation demonstrates poor business awareness.

Some candidates did correctly identify that cash could be raised by the use of debt factoring to potentially fund the investment in China or elsewhere in Asia, although few candidates identified the cost of factoring and that Kadgee was currently operating on lower margins than the cost of factoring.

Most candidates earned pass marks in this criterion, although much higher marks would have been awarded if cash and financing arrangements had been discussed. Therefore, the reason that higher marks were not awarded in this criterion, was not because what candidates had written was incorrect or insufficient, but that cash and financing issues had been totally omitted.

4.6 Prioritisation

The examiner is very pleased that almost all candidates did clearly prioritise the issues in the case, and did attempt to justify the rationale behind their ranking. However, only around half of all candidates were awarded marginal pass marks or higher, as they had not identified that a key issue which could have a dramatic impact on Kadgee's operations was the threat of the potential strike at 3 of Kadgee's factories, following the dismissal of Rita Scree.

The examiner considered that the potential strike, and the implications that a strike would have on Kadgee's customers, warrants this as a priority issue and higher marks were awarded if the strike had been placed within the top 3 priorities. If Kadgee does not diffuse the difficult Human Resource issues and the threat of a strike and also the threat of the new MD Birgit Zeim resigning, then the effects of a strike could cause Kadgee to lose further customers, or could slow up cash receipts. Either of these two effects could lead Kadgee to breach its overdraft and be forced to cease trading. This has happened to other companies in this industry and could happen to Kadgee if this difficult situation is not handled urgently. Many candidates did correctly identify this as a top priority and stated that the threat of strike action "should be nipped in the bud" and that is exactly what Kadgee's management need to do.

If Kadgee were forced to cease trading, the proposed Joint Venture with Xina or the transformational change that the new MD is trying to bring about would be irrelevant. There would be no long term future if Kadgee's short term problems are not addressed and the two top priorities are the strike and its cash situation.

Many candidates simply copied out the list of strategic alternatives given in the unseen material (China on its own, China Joint Venture, Asia and the IT proposal) and many also did not include the management of cash in their top 5 priorities. Those candidates who did correctly include the potential strike within their top 3 priorities were not awarded the full 10 marks available in Prioritisation unless they had also included the need to manage the cash situation and to reassure PGB, Kadgee's bankers in the top 5 priorities.

There continues to be a lack of understanding of the nature of prioritisation. It is not about urgency but about the impact on the company of each issue. A minor issue that requires a decision next week is less urgent than a major strategic issue that should be considered for the future success of the company.

To summarise, in order to earn the full 10 marks available, it was necessary to identify and place in priority order at least the top five issues facing the company in the question, taking account of the events given in the unseen material on the exam day. These should be fully justified and also the top priority, in the examiner's view, (which in this case was the potential strike) should have appeared in the top three priorities given by the candidate.

4.7 Judgement

This is a very important criterion, which now carries 20 marks. Marks are awarded for the demonstration of alternative solutions and the display of professional judgement in reaching recommendations. The Judgement criterion was a clear discriminator between well prepared and less able candidates. It is necessary to earn reasonable marks in this criterion in order to pass the TOPCIMA paper. If low marks, at the marginal fail level of this criterion, are awarded, it is very unlikely that the candidate will have enough marks to pass TOPCIMA.

Therefore unlike many of the other assessment criterion, it is necessary to earn pass marks in the assessment criterion of Judgement in order to be confident of passing TOPCIMA.

It was this criterion that often determined the difference between pass and fail in a script. Many candidates who have analysed and discussed the issues well and showed good commercial judgement on several issues earned pass marks of over 10 marks. However, many candidates that demonstrated poor commercial and professional judgement earned between 2 to 8 marks.

Therefore it must be stressed again that this criterion is an area that needs to be improved for the future. Marks will **only** be awarded in the criterion of Judgement for comments and recommendations that are commercially viable, realistic and sensible. Common sense and general business awareness was generally not displayed – many candidates did not even mention cash and their report recommended investing in a move to a new manufacturing base as well as the IT proposal, despite knowing that cash was in short supply.

In the November 2006 case, the mark scheme in the assessment criterion for Judgement rewarded reasoned analysis, judgement and sensible comments over eight aspects of the case, which were as follows:

1. The proposal to set up a manufacturing base in China on its own. The case material stated that the Chairman, Andrin Burnak, wants Kadgee to remain independent and that he was not enthusiastic about a Joint Venture. However, it was expected that candidates' research into operating in China would have identified that setting up a business in China on its own is very difficult. The Chinese government favour Joint Ventures with Chinese companies, and a business trying to set up on its own in China would be subject to serious delays which could preclude Kadgee from being operational for several years. Therefore, this proposal was not feasible and should have been rejected. The issue was not about the risk, the lack of financing or any other concern about Kadgee – it was about this option not being acceptable in China. There were marks available for stating that Kadgee's wish to move to China on its own was not possible due to the Chinese restrictions on foreign companies. Many candidates did not earn marks here although a sizeable minority had researched this and did earn these marks for correctly stating that this proposal was simply not possible due to the barriers of entry imposed by the Chinese government.
2. The proposal to accept the Joint Venture with Xina in China. There were many marks available in the Judgement criterion for the analysis of the key aspects of the proposed Joint Venture proposal and for the discussion of Intellectual Property Rights (IPR). It was especially disappointing that only a minority of candidates discussed the risks associated with the possible loss of Kadgee's IPR's if it were to enter the Joint Venture with Xina. There was little discussion of the risks of stealing copyright designs or the manufacture of counterfeit garments, which is a big problem in China at present. The enforcement and monitoring of Intellectual Property Rights is a global problem facing many companies in many industries, and candidates should ensure that they have a better understanding of the risks and how these risks can be controlled, so that they are better prepared to discuss IPR's in any future TOPCIMA exam. Marks were available for discussion of the Joint Venture in respect of the greater capacity of the new factory (20 million garments), loss of control for Kadgee's management, the strong positive NPV (€17.5 million expected value over the first 5 years only) and the concern over whether Xina could produce garments at the required high quality. However, many candidates did correctly recognise that Kadgee needs to lower its manufacturing cost base in order to be able to compete, and that the Joint Venture proposal could help it to achieve this.
3. The proposal to move the manufacturing base to Asia (not China). Most candidates earned low marks as they provided little analysis of this proposal or even to contrast this alternative strategy to the Joint Venture proposal. The aspects of this strategy that would have been awarded marks included that the NPV (at €8.0 million expected NPV) was less than half of

Kadgee's share of the Joint Venture NPV (at €17.5 million) although Kadgee would retain 100% control. Furthermore, Kadgee's management had no experience of manufacturing overseas and would either have to recruit new factory management or relocate some of its existing management to control the new factory in Asia. There was also little discussion of non-financial factors, such as quality and skills of available employees, transportation links and shipping time to Europe, or the political stability of either Location 1 or 2. It was especially worrying that some candidates who recommended the move to Asia (not China) as a suitable strategy had not considered any of the non-financial factors and had also not recognised the much lower NPV generated from either of the two Asian locations.

4. Potential strike action. There were marks available for stating that Kadgee's management must take action to avert its employees going on strike over the dismissal of one employee, Rita Scree. A strike could have far reaching repercussions and could cause Kadgee to cease trading. Therefore, the Rita Scree dilemma, and whether to re-appoint her, or pay her redundancy or offer her early retirement and to apologise for the dismissal was required in order to ensure that the employees at 3 of Kadgee's factories do not go on strike.
5. Cash flows and dealing with Kadgee's bankers. Cash is key to the survival of Kadgee, even more so during the next 12 months whilst Kadgee undergoes its period of transformational change. The examiner cannot understand why so many candidates did not discuss cash or financing at all. The pre-seen material included a detailed cash flow statement which showed that inventory had increased to €8.2 million. However, some candidates simply assumed that this was all old un-saleable obsolete stock. Any research into the clothing industry would have demonstrated that most retailers operate a Just In Time (JIT) inventory system and that retailers have passed their stock holding costs onto their suppliers and that this is an example of the power wielded by Kadgee's few customers, upon whom Kadgee is highly dependent. Therefore, whilst inventory levels are high, this is part of the working capital cycle imposed onto Kadgee by the contractual terms of its customers.

Marks were available for discussion on ways in which Kadgee's overdraft could be managed and how Kadgee's plans to relocate its manufacturing base could be financed. Despite reminding candidates in the unseen material on the exam day, few candidates recognised that the company's assets could not be sold without the bank's permission as the €4.5 million loan was secured on these assets. Another commercially naïve recommendation made by some candidates was that the assets could be sold to finance the Joint Venture or the move to Asia, with no recognition that the factories would need to remain open until the Joint Venture factory or the new factory in Asia was operational and that cash was required now for the investment. However, some candidates who did recognise this timing problem incorrectly recommended that "Kadgee close down for a year" and assumed that its customers would wait for Kadgee to re-open in a lower cost manufacturing base. This type of comment demonstrates a complete lack of commercial and professional judgement.

What was required in order to earn marks in respect of cash and financing in the Judgement criteria was the recommendation to liaise closely with PGB, or another international bank, to arrange financing, perhaps secured on the new factory in China or Asia, and that interim finance would be required in order to carry on manufacturing in Europe until the new factory was operational, and the old factories in Europe were subsequently closed and sold. The process could take between 1 to 2 years and that the positive cash flows generated from the China Joint Venture or the Asia proposal could enable Kadgee to borrow the required finance.

6. There were marks available for discussion and analysis of the possibility of Kadgee outsourcing its production to China or elsewhere in Asia, which would enable Kadgee to

reduce its cost base without the need for direct investment. Any discussion on outsourcing should also have included comments on the risk of losing IPR's and the need to maintain quality of production.

7. Another area for candidates to earn marks in Judgement concerned factory closures and the need to maintain quality of production in the lead up to closure, as staff morale would be low and also for discussion on the need to sell the land after the factories have been closed, in order to repay the interim finance that Kadgee had raised.
8. Lastly, as indicated in the Adrian Sims article on the CIMA web site, there was the alternative strategic route available for Kadgee's shareholders, which was that the business could be sold or put into voluntary liquidation. Marks were available for discussion of these strategic alternatives, but few candidates discussed these. The lack of comments on the possibility of liquidation perhaps demonstrates an inability to think about the concept of "alternatives" in business situations.

As you can see from the above comprehensive list of 8 areas there were plenty of opportunities for candidates to earn marks in the Judgement criterion. It was disappointing that candidates continue to give brief unsubstantiated comments and recommendations which do not deal with the issues in sufficient depth and do not demonstrate commercial sense. Business is all about managing risks. Your role as a consultant is to advise, and you should be risk adverse and should have identified the potential strike, for example, as a risk which should be avoided.

4.8 Integration

This criterion rewarded candidates for their ability to write a cohesive, comprehensive report that "flows" well and reached well justified recommendations on each of the issues discussed. This criterion is marked holistically on whether the report is a realistic, business report that contains commercially viable comments that would help advise the Board of Directors of Kadgee. The Board has appointed you to advise on strategic issues and that is what your report should have concentrated on. The time has never been better to consider moving Kadgee's manufacturing base to China or elsewhere in Asia, as Kadgee must address its cost base and this is what your report should have discussed and made recommendations on. The IT proposal was an additional issue to discuss, but was not a proposal that could "save" the company from liquidation. Many candidates failed to recognise the risks of this venture, despite calculating a negative NPV, as only one customer had so far been identified.

4.9 Logic

The criterion of Logic carries 20 marks in the assessment matrix and like Judgement was the criterion in which weaker candidates earned low marks and resulted in the difference between pass and fail. In order to earn high marks in this criterion you must prepare clear, justified, well argued recommendations. It is the strength of your reasoning and justification behind the recommendation that earns more marks than the recommendation itself. All business reports, whether financial or non-financial reports, include recommendations of alternative courses of action, together with justification of why one, or more, courses of action are recommended. Some candidates had not managed their time adequately and prepared rushed recommendations, perhaps because far too much time had been spent on detailed calculations which were not necessary.

Repeating what is above in Integration, the requirement of the 100 mark question is for you, as a consultant to prioritise, discuss and to make appropriate recommendations. Therefore, you **MUST** make recommendations and not leave any of the issues undecided. It is for the consultant (i.e. the candidate) to present all of the arguments for and against and to weigh them up to reach recommendations. There is no single right or wrong answer with TOPCIMA – it is all down to the

depth of discussion and the strength of the candidates' arguments and justification behind the recommendations made that will earn marks. Although remember, ill-thought through analysis and poor recommendations are not rewarded.

In this case, low marks were awarded for a recommendation to accept the Joint Venture proposal (or to relocate to Asia) and also to undertake the IT proposal at a total investment cost of €9.3 million (or €8.3 million) if there was no discussion at all of how these recommendations should be financed. Additionally, candidates rarely appreciated the time gap between opening in China or Asia and closure of the European factories and how to finance this interim period. Far too many candidates simply stated "sell the factories" with no discussion of how to maintain customer support and ensure product quality did not fall in the period up to closure in Europe.

Additionally, the candidates that had identified the potential strike generally recommended that Rita Scree should be re-employed and given paid special leave, but few candidates attempted to resolve the Board dilemma concerning the new MD's threat to resign.

As a reminder, it is generally better for all recommendations to appear together at the end of the report, rather than at the end of each section concerning each issue, as many actions impact on others. It is impossible for a company to choose every available proposal presented to it, as there is limited finance and manpower to action them. Therefore as the selection of courses of action is competing for the same scarce resources, manpower and finance, the recommendations should not be made in isolation, but should be weighed up at the end of the report.

Other issues that candidates should have made recommendations on included the need to retain Kadgee's existing customers and to win more business. There was also the issue of the need to improve the quality of Kadgee's output. Other recommendations could also have covered Birgit Zeim's future potential shareholding of 33% (if she exercised her share options) and the recommendation that she should invest some equity in Kadgee to show her commitment for the company. Another recommendation could have covered the possibility of Kadgee going into voluntary liquidation, as it is likely that higher funds could be returned to shareholders than if Kadgee was forced into liquidation.

4.10 Ethics

Most candidates attempted to address ethical issues and there were many ethical issues to discuss in this case. However, few candidates displayed any realisation that if Kadgee were to behave ethically it would cost money that the company either did not have, or that was needed to finance the move to China or elsewhere in Asia.

The problem still remains that many candidates discuss many ethical issues in the case but they still do not:

- justify why the issue has an ethical dilemma or
- give clear fully justified advice on how the ethical issue could be addressed and the cost implications for the company

A maximum of 4 marks, i.e. marginal fail will be awarded for the discussion of ethical issues alone. It is the advice and recommendations on how the ethical issues could be overcome that will earn the available marks, up to the maximum of 10 marks.

There were a range of ethical issues in this case including

- Proposed move to China or Asia resulting in large scale redundancies, and advice on giving staff time off work to seek other jobs, skills re-training and communication issues with staff.

- Problems of operating in China and not being associated with “sweat shops” or child labour issues and the need for Kadgee to be involved with the ethical initiatives which try to prevent unacceptable practices in Asia and China.
- The problems with operating in China and the possible loss of Intellectual Property Rights
- Possible “additional payments” or bribes that Birgit Zeim has stated may be payable
- Accidents and poor maintenance issues
- HR - staff morale and motivational issues
- Dismissal of Rita Scree

A poor comment made by far too many candidates was to not announce the decision to move to China or elsewhere in Asia, and to reassure the employees in Europe that their jobs were secure, in order to maintain staff morale and the quality of production. This would be very unethical, and also unrealistic, for any company to keep its relocation plans secret once a decision had been made by the Board.

It was disappointing that so many candidates stated that if Kadgee moved its manufacturing to China or elsewhere in Asia then it would be unethical to make the European employees redundant. This was not an ethical dilemma in itself, as employees would at least be treated fairly and would receive redundancy payments. This would be more preferable to Kadgee’s employees than the possible alternative scenario of carrying on in Europe and the company losing more business and being forced to cease trading, which could result in many employees receiving reduced levels of redundancy payments, if the company were to go into liquidation. Many candidates also missed the ethical issue concerning whether to pay part-time workers any redundancy payments, as this category of employees who have no legal right to such payments.

No marks were awarded if candidates simply stated “pay redundancies” or “clean up sites” as they had not stated why Kadgee should act ethically.

To summarise, in order to earn a pass mark, it is necessary to identify the ethical issues, justify why you consider them to be ethical issues and to advise on how to resolve several of the ethical dilemmas included in the case material. The full 10 marks were awarded for a good discussion and advice concerning two or more ethical dilemmas.

5.0 The requirement

The requirement has been fairly similar to previous TOPCIMA exams, asking candidates to prioritise, discuss and make appropriate recommendations on the issues facing Kadgee. It still remains that the quality of commercial judgement in reaching the recommendations made is still far too weak in many scripts, and this can make the difference between pass and fail.

More practice using at least 2 past TOPCIMA cases is required by unsuccessful candidates to improve the quality and range of recommendations, as this is key to passing TOPCIMA.

6.0 Recommendations to improve your chance of passing TOPCIMA in the future

The examiner is confident that you would not have gone into the exam room for any other CIMA exam without working your way through past papers, as a way to revise and test your knowledge. So why do so many candidates sit TOPCIMA without working through past cases? Yes – there is a lot more material to read and assimilate, but it is only through practicing your analysis skills using past cases that you can improve them for the TOPCIMA case that you are planning to sit.

Candidates are referred to the TOPCIMA Learning System textbook, (www.cimapublishing.com) which is the recommended reading text for this exam. This CIMA Learning System takes candidates through past TOPCIMA cases and demonstrates how to analyse the pre-seen and also what to do on the exam day with the unseen material and how to prepare their answers on the exam day. It also contains a chapter on Technical issues, including revision of a range of business and financial techniques that candidates should understand and incorporate in their answers. This CIMA Learning System also contains past TOPCIMA cases and the case writer's answers.

The format of candidates' reports was again very good this sitting – however, the content of the reports needs to be improved, particularly in respect of commercial judgement. Candidates sitting TOPCIMA for the first time are referred to previous Post Exam Guidance reports or the general TOPCIMA guidance notes (on the CIMA website) for advice on the suggested report format.

In summary, the eight key tasks that will put you in a better position of passing TOPCIMA are:

1. WORK (**not** simply read) through at least 2 TOPCIMA past cases (on www.cimaglobal.com)
2. Read thoroughly 2 past TOPCIMA Post Exam Guidance reports (on www.cimaglobal.com)
3. Research thoroughly the business setting for the case that you will be sitting and totally familiarise yourself with the pre-seen material
4. Revise business strategies and suitable techniques and be able to apply them to the case material. The examiner would also like to stress the importance of cash management in any organisation, large or small, listed or unlisted, profit making or not for profit – cash is key.
5. Practice writing answers to previous TOPCIMA cases in a 3 hour session and see how comprehensive an answer you can produce in this time. Check your answer to the case writer's answer (in the CIMA Learning System or available from www.cimapublishing.com)
6. Read the two articles on the CIMA website (www.cimaglobal.com) about the case you are planning to sit. CIMA commissions independent writers to analyse the pre-seen material and these articles gives a good insight into the industry setting and the problems and opportunities the company is facing. The articles for the November 2006 exams on Kadgee were "Hanging by a thread" by Adrian Sims and "Riches to Rags" by Shuaib Masters. There will be other articles for the next TOPCIMA exams on the CIMA website early in 2007.
7. Ensure that your report clearly prioritises the top 5 key issues raised in the unseen material and consider carefully whether you have the priorities in an appropriate order given the circumstances of the case and that you have justified the order in which you have placed them.
8. Ensure that your answer covers all nine of the assessment criteria

Remember – do your research and prepare for the exam – but on the day, ensure that you write a thorough, well reasoned answer that covers the relevant key issues raised in the unseen material and ensure that your answer covers all aspects of the requirement.

As noted above, you must practice writing answers for TOPCIMA cases. You should write answers to past TOPCIMA cases and check them yourself against the case writer's answers. If you have simply read the case writer's answers and you have not sat down for 3 hours to see how comprehensive an answer you could write in 3 hours, then you are not prepared for this exam.

The key to passing this exam, like many other exams and tests, is practice, practice and practice. There is no short cut. There is no easy answer. There is no way to prepare for the TOPCIMA exam without investing in hours of work using past TOPCIMA papers and to work on them as if they are the real case that you are going to sit! Remember it is good preparation, and not good luck, that is needed to pass this final test of professional competence – and these are the same skills that you will use in the real world when you are a qualified CIMA accountant.