

## TOPCIMA – May 2007 – Post Exam Guidance report

### **1. Introductory Comments**

The setting for the May 2007 TOPCIMA case was the airline industry and concerned a major Asian carrier, Flyqual Airlines (FQA). The company, a member of the N Alliance, majority owned by two very large shareholders, faces increased competition and needs to address a number of strategic problems. The first of these was determining the financing method to be used in the acquisition of the C 491 aircraft which was a decision the Board had taken and stated clearly in the unseen. In addition, there was a major issue of how to handle a delay in delivery of the C 491 aircraft, given that there has been a great deal of publicity given to the delay in the Airbus 380. Other strategic issues included the development of new business opportunities, the threat from low-priced, so called "no frills" airlines and the impact of the delay to the new terminal which is dedicated to FQA for its sole use. Other issues presented to the candidates included the demands of one of the two largest shareholders (JJJ) for an improved profitability report in order that his company could better defend a hostile take-over bid, the need to address a recommendation by FQA's home government on the fitting of a new door as a safety precaution, adverse press reports relating to entertainment and price discounts being offered by FQA and the potential delay in the delivery of simulator training equipment for the C 491 aircraft.

New case material was presented to candidates on the day of the examination as follows:

1. The Board of FQA had taken the decision to replace some of its ageing fleet of aircraft with the brand new state of the art C 491 aircraft. This was in preference to the F 898 aircraft which was the alternative being considered or replacing with new versions of the existing models of aircraft contained in the fleet. The FQA Board acknowledged the possible delay in the delivery of such newly designed aircraft as has been the case with the A 380 manufactured by Airbus. FQA had placed an order for 20 C 491's, with delivery commencing on 1 January 2008. The contract was for one new C 491 to be delivered each month with the last arriving in August 2009. FQA intended to dispose of one of its existing fleet each month on taking delivery of the new aircraft and proposed to then retire a further four aircraft from its existing fleet on receipt of the last C 491 in August 2009. Appendix B provided a comparison between the net present values of leasing or buying one C 491 aircraft. The terms of the lease were an annual charge of \$45 million per aircraft. This information was contained in the pre-seen case. It was then made clear that the company at which the brother of the Chairman of FQA is managing director, was able to provide a lease agreement for FQA at an annual leasing charge of \$35 million. The terms and conditions of both lease agreements were identical.
2. The Industrial Relations situation between FQA and the trade unions which was raised in the pre-seen case had improved and although they could not be described as friendly it was clear that a better understanding had been reached by the two parties. The government had lavished praise on the Chair and Chief Executive of FQA as well as the trade union leaders.
3. The dispute with the catering suppliers CG had been resolved and CG was now supplying a satisfactory catering service.
4. A leading national newspaper had revealed that some directors on the FQA Board had engaged in activities which included providing lavish corporate entertainment and offering substantial price discounts to potential corporate customers. This included employees of government departments both in FQA's home country and abroad. Other media channels were carrying out their own investigations. In response to the allegations, the Chairman of FQA had challenged the national newspaper to provide proof. The national newspaper had reported that FQA's external auditors used the airline for most of their domestic and overseas flights and asked whether the auditors received discounts or benefits from the airline which were not available to other passengers.
5. The government had introduced a new safety recommendation for aircraft which would come into operation from 1 January 2008. The recommendation related to door mechanisms and applied to all new aircraft acquired by airlines registered in FQA's home country but not for those currently in service. The cost of the new recommendation was expected to be \$1 million for each C 491 aircraft.

6. In order to undertake the flight crew training, FQA engaged a supplier to provide flight deck training equipment called a simulator. The supplier had informed the Chief Operating Officer at FQA that there was expected to be a three month delay in the supply of the simulator. This meant that the programme of training for flight deck staff would be severely disrupted and likely to cause a delay of up to 3 months. The Chief Operating Officer had been in contact with other suppliers of the simulators but had not found one that could improve on delivery. As a contingency, he instructed his staff to try and find a way of halving the amount of training time needed on the simulator as an interim measure until FQA was back on track with its original schedule of pilot training.
7. Three low-priced airlines had been established in FQA's home country and this was seen as a serious competitive threat. FQA's Director of Corporate Development together with the Director of Sales and Marketing were preparing to present a joint paper to the Board which proposed that FQA should now enter the low-priced market on short haul flights at a reduced ticket price. This would be in addition to their normal services.
8. The new airport terminal at FQA's home airport in the capital city, which was due to be opened on 1 January 2008 and intended for the exclusive use of FQA in providing the total service requirements for all its flights, would be delayed by 6 months. This affected work on accommodating the C 491. This meant that until the structural work is complete, FQA, and other airlines operating the C 491 would be restricted as to its operational use. In addition, the delay in the new terminal building had attracted much criticism because the existing arrangements operated by FQA in its home airport already led to long queues. There was also under provision of facilities for passengers at the peak holiday period. The Board had accepted that this situation would continue until the new terminal was opened.
9. The Chairman of one of the two largest shareholders of FQA was seeking to increase the value of his company (JJJ) as quickly as possible. This was because JJJ was subject to a hostile take-over bid and the Chairman was keen to see an improvement in FQA's short term profits. The attempts by the Chairman of JJJ to produce a higher profit forecast were resisted by both of FQA's Chair and Chief Executive. The Chair and Chief Executive of FQA both recognised though that 2006/7 growth in profit attributable to shareholders would not be as high as that achieved in the 2005/6 financial year.
10. Two new business opportunities arose:

(i) Bid for new landing slot

The Board was considering tendering for a new landing slot on a route to the USA which would be available from January 2009. The process was for airlines to bid for the landing slot and it was likely to be awarded by the Aviation Authority in the USA to the highest bidder subject to meeting the Authority's minimum standards laid down for operating.

(ii) New freight contract

The opportunity arose to tender for a new freight contract. This would necessitate the C 491 being used due to the bulky nature of the highly toxic goods being transported. It became clear that no other major airline was prepared to transport the very hazardous cargo. If the contract were taken by FQA, it would require significant alteration to two C 491 aircraft in the fleet as a daily service had to be guaranteed. This contract was available for two years from 1 January 2009 at first although it could be extended after two years. The Finance Director had calculated that the contract would provide an undiscounted cash pay back in the third year of operation and would achieve significant levels of surplus cash flows after that.

It was now clear that FQA had to address both its short term operational problems and long term strategic issues. Difficult decisions needed to be made by the Board. Marks were available for identifying and justifying the top priorities. Although the Examiner held views as to the order in which these priorities should be addressed, there were no penalties applied to candidates who offered a different order, or even alternative priorities, providing their rationale was properly justified and was realistic.

While there is no single correct answer to a case study of this nature, it is worth reminding all candidates that a clear understanding of the assessment matrix and the inter-relationships between criteria contributes to success in the TOPCIMA examination. That is to say, candidates should produce an answer which addresses all the criteria in a logical manner.

In particular candidates sometimes do not appreciate the relationship between the criteria - Focus, Prioritisation, Judgement and Logic and it is worth providing a general reminder here. For a particular discussion point, what is required is the assembly of relevant information (Focus), determining a priority order of the issues which need to be addressed (Prioritisation), some analysis and evaluation (recognising that choices exist), perhaps with discussion of necessary implications (Judgement), followed by reasoned recommendations (Logic).

The lack of recognition of the significance of an issue, such as the financing approach to be used for the acquisition of the C 491 aircraft or the threat posed by low priced airlines (in this Case), adversely affects the candidate's performance. This is because marks in Focus, Judgement and Logic for comments on the issue will not be readily available. Marks are awarded in Integration for the flow through from Focus to Logic, via Prioritisation and Judgement. Candidates sometimes move from provision of information to unsubstantiated recommendation.

## **2. Overall performance**

Performance was variable. Scripts were generally well presented with an attempt being made at most of the criteria. This is commendable and candidates are encouraged to lay out their answers in a style which shows logical progression from introduction, through identification and prioritisation of the issues, then discussion of those issues and ethical considerations leading to logical and well supported recommendations. The key attribute is to approach the Judgement criteria in a meaningful way. This normally takes the form of identifying a number of alternative courses of action for a particular issue, evaluating these and then providing the sound basis for logical reasoned recommendations. In many cases candidates only described the situation with which the case organisation was faced and did not offer alternative approaches to addressing the issue. Consequently, some marks were not gained. It should be self evident that the reader of the report is already familiar with the issues facing the organisation and is seeking analysis and recommendations which are realistic and attainable. In the event that these were either not forthcoming or were poor then the marker was left with no alternative but to restrict the award of marks.

There are very few marks available for repeating the case content (pre-seen and unseen). It is appropriate to explain the potential consequences of a certain action or the likely impact of a certain situation occurring, but the critical issue is what to do about it. The proposed courses of action should take into account the potential impacts and effects on the organisation.

All TOPCIMA cases require business awareness and good judgement for a pass mark to be achieved. The candidate needs to be able to present and defend a reasoned position. Ill thought through analysis and recommendations are not rewarded.

## **3. Assessment criteria**

### Technical.

On the whole, most candidates produced a SWOT analysis and also a range of other techniques. The SWOT analysis was usually well done although many candidates missed the fact that there was likely to be severe pressure on cash flow in future years irrespective of the method of financing the acquisition of the C 491 aircraft. This is surprising and disappointing because surely it is recognised by all candidates sitting this paper that cash is the very life blood of any business and therefore its potential diminution for whatever reason must pose a significant threat. A number of candidates came to the examination with a pre-conceived notion of what the SWOT analysis should contain and referred to issues which had been effectively eliminated in the unseen material, such as the threat of industrial action, or the poor relationship with CG the catering supplier. Nevertheless, these candidates re-iterated this in the SWOT and then proceeded to discuss it in the body of the report. The SWOT analysis should not be seen as an opportunity for candidates to "brain dump" all they know about the organisation in the Case. The SWOT analysis should instead relate to the key strengths, weaknesses, opportunities and threats. Too much time in constructing the SWOT analysis by trying to cram in too

many points is counter productive given there are only 5 marks available under the "Technical" heading. The better SWOT's only contain the key issues. In fact candidates should think carefully about the inclusion of appendices particularly if they do not support the later discussion. Often candidates run out of time when it is clear that they have expended much effort (and consequently time) in producing the appendices.

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

- PEST analysis which needed to relate to the airline industry and the impact on FQA.
- The use of the Johnson and Scholes model to structure the answer when evaluating the suitability, acceptability and feasibility of the proposed replacement of the ageing fleet
- Porter's Generic Strategies to demonstrate that FQA differentiates itself on quality
- Porter's five forces to demonstrate that new entrants are able to compete with FQA and that the most important competitive forces are the power of the buyers and the power of the suppliers
- Mendelow's stakeholder analysis which should analyse the many stakeholders that FQA has including its employees, shareholders, customers, aircraft suppliers and the government
- Ansoff's Growth - Vector matrix.
- Use of net present value calculations relating to the revised lease versus buy opportunity, relevant ratios and key performance indicators.
- Calculations on likely cash flow implications particularly relating to the impact of leasing charges.
- The seating capacities of the fleet after all 20 C 491s had been received leading to possible discussion on the impact on revenue generated.

### Application

Candidates need to show their technical knowledge and this normally appears in appendices. However, a basic technical knowledge is not sufficient on its own. The key test is whether that technical knowledge has been applied and contributes to the analysis and recommendations. To gain marks under this criterion, candidates must not only demonstrate the technique but apply the knowledge within the report normally under the judgement and logic criteria. Therefore the candidate should reflect carefully on the techniques he or she applies in determining how they will support his or her case.

The major threats facing airlines at the moment are increasing competition, fuel costs and the effect of the carbon footprint on the environment. Further, potential delays to the delivery of the new aircraft, following the huge amount of publicity surrounding the Airbus A 380, along with the potential cash demands which will be made on FQA in the future should all have been included in the SWOT analysis and then referenced in the text.

A range of calculations that could also have been prepared included:

- Preparation of a revised Lease versus Buy statement updated by the new information provided in the unseen material. (See comments below after the next set of bullet points).
- Relevant ratios such as Price / Earnings for FQA compared with Competitors 1 and 2 and the debt to equity and liquidity ratios for FQA
- Relevant comparative performance indicators between FQA and Competitors 1 and 2 such as revenue and profit per km., revenue per aircraft and per passenger and also profit to revenue.
- An estimate of the revenue earnings currently achieved by FQA compared with their projections for those from the C 491. This would have led into the possible conclusion that FQA may be over optimistic about its future revenue earnings capacity from the C 491 and / or that it is currently under charging especially when the revenue per passenger currently earned is compared with that of Competitor 1.

It was disappointing how many candidates could not accomplish the revised Lease versus Buy calculation correctly. A common error was one of timing relating to when the cash out flows and tax shield effect came into being. Some candidates even added the tax shield effect to the lease payment outflows resulting in a lease cost reduction of \$12.5 million instead of \$7.5 million per year. Other

mistakes were evident, for example the use of the wrong discount rate which should have been 6% in line with the alternative opportunity cost of a loan. In some cases, candidates did not even attempt the calculation as if the very prospect of a lease versus buy calculation filled them with terror. The calculation could not have been simpler, see the suggested answer.

A number of candidates re-calculated the net present value for both the C 491 and the F 898. This was completely unnecessary and wasted a lot of time. Clearly these candidates expected to be required to do that even though the unseen made it clear that a decision to acquire the C 491 had been made by the board obviating the need for such a calculation.

### Diversity

Again as a reminder, it is recommended that the candidate should read widely on the industry in which a case is set, to enable him or her to quote relevant examples and to explain how real companies have overcome many of the problems facing the company in the case material.

There has been a great deal of publicity appertaining to the aircraft manufacturing industry and in particular to the rivalry between Boeing and Airbus. This has particularly concentrated on the difficulties encountered by Airbus in meeting its delivery schedules for the A 380, when (or if) it will meet its break even target and the apparent success of the Boeing 787, (the Dreamliner). In addition, there has also been much publicity particularly surrounding the difficulties faced by aircraft carriers such as British Airways in respect of the terror scare in the UK in August 2006, the delays caused by inclement weather in December 2006, baggage handling problems in December 2006 and January 2007, the agreement on the Open Skies policy and in February 2007 the change of policy to impose a surcharge if more than one piece of luggage is checked in. Recognition of the international travel regulatory organisations was also appropriate in this particular case setting. Most candidates were aware of Airbus, Boeing and the difficulties faced by British Airways over the recent period before the examination was taken.

The "Diversity" criterion provides marks for commentary which shows industrial and strategic awareness. The point is that the candidate needs to bring in relevant examples. It is acceptable to use examples from different industries providing they are relevant to the point being made, for example the delay in the completion of Wembley Stadium when considering the delay to the new terminal in the case. However, it is for the candidate to clearly show the connection between the case organisation and examples which are drawn from different industrial settings. It is worth pointing out that sometimes candidates give several references to industry settings to illustrate a point already made. This was particularly evident in the low priced airline discussion. In such a case it would normally be a better use of time to move on rather than repeat types of examples.

### Focus

Candidates were generally able to gain reasonable marks in this criterion for their coverage of the material contained in the case. A range of issues could have been discussed within the report and overall the application of this criterion resulted in most candidates achieving high marks. One area which was not well covered however was the possibility of there being a delay in delivery of the C491 following the Airbus 380 experience.

### Prioritisation

Marks are awarded for the attempt at identifying and prioritising the issues. On the whole this section was well done by candidates. Careful reading of the new unseen case material is of course very important. Citing the request by JJJ, one of the largest shareholders, for an increased profit forecast as an urgent issue was quite proper as long as it was for the right reason. It was not FQA which at this point was subject to a take-over threat as some candidates thought, but the company which JJJ chaired. Had FQA been subject to a take-over threat the issue would have been much more serious for the FQA Board. Nevertheless this was an important issue for the Board of FQA as if JJJ was taken over there could have been a serious impact on FQA itself. The new owner of JJJ may not wish to maintain the shareholding in FQA or might possibly mount a bid to take-over FQA in due course. If the candidate's discussion under ethics also addressed the business issues associated with such items as the JJJ shareholder pressure, then marks were awarded accordingly. Often though, candidates only

concentrated on the ethical considerations which are undoubtedly there, but there were more issues to consider.

The Examiner considered that the financing of the C 491, and the potential delay in bringing the C 491 into service were the most important issues which needed to be addressed by the Board. The strategic issues of the new business opportunities offered by the landing slot in the USA and the toxic cargo followed by the threat from the Low Priced Airlines and the operational delay in the new terminal were regarded by the Examiner as the next most important issues. Phasing of the deliveries and timing of the disposals of the old fleet, pressure from JJJ, the ethical issues associated with the corporate entertaining and the new safety recommendations were all regarded as of lesser importance by the Examiner.

To summarise, in order to earn the full 10 marks available, it was necessary to identify and place in priority order the major 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 in terms of their order of priority. The candidate has the opportunity to determine the priority order of the issues which must be tackled. However if the reasons for this priority order are not convincingly justified, the Examiner will make his or her own judgements on the priority order of the candidate. Marks are awarded for the priorities shown providing there is a sensible justification for the order given by the candidate. These marks are awarded even if the Examiner has a different perception of the order in which those priorities should be placed. The Examiner does not claim to have over-riding insight into the most important issues facing the organisation which is the subject of the case. The candidate must be prepared to argue his or her own case and if this is justifiable then marks are awarded.

One issue to be wary of is that sometimes candidates spend too much time on the Priorities criterion. All that is required is a concise reasoned explanation of prioritisation. The detail then should follow in the main body of the report and will earn marks under the Judgement criterion.

### Judgement

The judgement criterion is important as it carried 20 marks in this Case Study and rewarded candidates for the display of commercial reasoning and professional judgement. Candidates earned good marks for identifying a number of alternative courses of action for a particular issue and then evaluating these. In general there was some evidence of candidates not allowing the time needed to complete this critical criterion section in sufficient depth. This may be partly due to too much time taken in completing the Priorities criterion section as mentioned at the end of the last paragraph in the previous section of this report. It was often the lack of depth of analysis which let candidates down. There are marks available for deeper discussion of major issues such as financing the C 491. Candidates needed to discuss the lease versus buy alternatives not only in terms of the relative net present value of each but also in respect of the cash flow timing, the effect of paying off long term loans in the future, the expectation of the need for re-financing in the future and the impact on the balance sheet. These discussions should have been supported with well prepared calculations where appropriate. An incisive comment, which connected different aspects of the case, was that the sources of funding from a rights issue would be under threat particularly if JJJ was taken over. Candidates who came prepared to argue the case between the C 491 and the F 898 needed to realise that the unseen material made it clear that the Board had made the strategic decision to acquire the C 491. Arguing against this decision was now futile although presenting a case which included the acquisition of some F 898's was reasonable. The following comprises the main issues which were expected to be addressed in a good answer.

1. Discussion of the financing required for the C 491, including the impact on the balance sheet and the cash flows necessary to service either the lease payments or the debt repayments. The candidate was informed of the NPV calculations in the unseen material. It is worth pointing out here that although a net present value calculation comparing the two aircraft was not required in the May examination, had it been, a proper comparison would have compared one C 491 with two F 898's given that the former carries 600 passengers while the latter carries only half that number. Thus the NPV comparison given in the unseen material is really \$97 million for one C 491 compared with \$52 million for two F 898's. The candidate was expected to explain that although the C 491 has the higher NPV, it would be appropriate to assign probabilities to the outcomes of the investment appraisal exercise and undertake sensitivity analysis on the variables. Can FQA achieve a load factor of 80% for the C 491? What are the financial consequences if it does not and how confident is it of achieving this level? The strategic development of the whole airline was critically linked to this decision and therefore the

information on which the decision is based needed to be as accurate as possible. One major variable was the cost of fuel which was rising dramatically and although FQA has so far managed to reduce its exposure to fuel price rises, it cannot do this indefinitely. It was expected that the candidate would discuss the challenge posed by financing the aircraft acquisition given that FQA's long term debt is at the level of \$4,220 million and the new aircraft will increase the balance sheet values by \$5,000 million. It was expected that there would be some explanation that FQA needed to repay significant amounts of debt over the next two years and that outright purchase was probably not an option if it meant FQA raising more expensive equity funding. The revised leasing opportunity should have been discussed, along with a calculation of its financial impact with the question posed whether in fact FQA could achieve an even more advantageous deal elsewhere?

2. The threat of the potential delay in bringing the C 491 into service and the impact this would have on FQA's service delivery, income generation (and consequently profitability), loss of market share and confidence should have been discussed. Given that FQA had committed to the acquisition of the C 491, the potential impact on income and market share would be serious if there was any delay in delivery or bringing the aircraft into service. The likelihood of delay was real particularly given the experience of the Airbus A 380 project. The candidate was expected to raise the potential danger of loss of market share and revenue and to discuss possible contingency plans in the event that a delay occurred. In addition it was expected that the candidate would recognise the potential delay in pilot training. The candidate was also expected to discuss the ethical impact of the Chief Operating Officer's instruction to reduce the training period to make up for the delay in the delivery of the equipment. Alternative approaches should have been considered by the candidate. The fact that the Board of FQA was aware of the potential delay, as expressed within the unseen material did not preclude candidates offering suggestions as to how such a delay could be dealt with.
3. Business opportunities with a new passenger route to the USA and the carriage of toxic freight to Europe. The candidate was expected to discuss the need for FQA to be satisfied that it could sustain numbers on the passenger route to the USA and the implications on its pricing strategy. It was expected that the candidate suggested some alternatives including possible code share arrangements with alliance partners and the potential for this to lead to other routes being opened up for FQA in the future. Discussion on the carriage of the toxic freight should have included consideration of whether or not this is a business FQA wishes to become engaged in and the potential for the airline to be seen as acting responsibly by ensuring that the material is carried safely. This could lead to a high premium price being charged in the future and further business development. The candidate was expected to consider the impact of changing the configuration of two C 491 aircraft to accommodate the contract. Many candidates ignored the potential new business opportunities.
4. The threat from low-priced airlines and whether FQA should embrace this or maintain itself as a high quality and consequently not a low-priced airline. The candidate was expected to discuss the potential threat to FQA of the market entry of low-priced airlines and the fact that the Directors of Corporate Development and Sales and Marketing were proposing to present a joint paper to the Board advocating that FQA should enter the market itself on short-haul flights. It was expected that the candidate would discuss the benefits and disadvantages of entering such a market and the impact market entry may have on FQA's reputation for high quality. It should be pointed out here that "short haul" is not synonymous with "low priced" or "no frills" as many candidates believed. Considering the size of the C 491, which is larger than a Boeing 747, is it realistic to suggest that it be used on short haul routes as some candidates did? The fact that the aircraft seats 600 passengers does not make it a "no frills" aircraft. The configuration of seats within an aircraft are principally determined by the airline which is the ultimate customer of the manufacturer.
5. The delay in the new terminal and the impact this would have on passenger perception of FQA's service delivery and the potential effect on passenger numbers. The issue here relates to the business impact of such a delay on FQA and also the attitude of FQA management in accepting that the existing inadequate facilities will be maintained without any improvement. The candidate was expected to suggest alternative arrangements until the new terminal is ready as well as the negotiation of compensation for the delay. Suggestions that FQA should hold regular meetings with the builders were hardly worth making. It is clear that FQA would

be in very regular contact with the builder (through the Airport Authority which commissioned the work) and carefully monitoring progress. Putting more building workers on site would not help but is more likely to hinder, quite apart from the health and safety issues. Adam Smith recognised this principle centuries ago in the theory of diminishing returns.

6. The phasing of the delivery schedule of the C 491 and the impact on the plan to take existing aircraft within the fleet out of service. Although the Board has established a schedule for delivery and the consequent phasing out of existing aircraft in the fleet, the candidate had the opportunity to suggest alternative schedules which might help to balance the availability of seats across the whole 20 month period when the C 491's are received. This point was recognised by very few candidates.
7. The pressure brought to bear to increase the profit forecast by one of FQA's major shareholders for its own ends rather than for the benefit of FQA as a whole. The ethical and corporate governance issue of corporate policy being influenced by a major shareholder should have been considered by the candidate. This brings into focus a potential conflict of interests for the Board of FQA as well as the shareholder concerned given that the Board would not wish to alienate its major shareholders. This should have been discussed in some detail by the candidate. It is not FQA's business to offer advice to JJJ as to how the take-over should be defended, as suggested by at least one candidate. An interesting discussion on the possibility of FQA buying back JJJ's shares would have needed to explore the legal and financial implications of this as well as its desirability.
8. The impact of the new safety recommendations being brought into effect from 1 January 2008 for all new aircraft acquired by airlines registered in FQA's home country and how FQA should respond to this. Although the recommendations have a financial impact on the C 491 aircraft, in terms of the overall NPV of \$97 million (per aircraft) it is relatively insignificant. The candidate was expected to discuss the approach which should be adopted by FQA in addressing this government recommendation including whether it was in the company's own best interests simply to accept the situation and implement it. Lobbying the government, as recommended by many candidates, was not a realistic approach as it would probably do more harm than good. What was a recommendation (by the government) at the time of the unseen would probably become a requirement in due course in any case. It should be noted that this requirement applied to all new aircraft from 1 January 2008 operating with airlines registered in FQA's home country. Therefore it would equally apply to the F 898 as well as the C 491 or indeed any other new aircraft acquired.
9. Staff re-training should have been discussed in that essentially there was a potential delay due to the simulation equipment not being made available on time. Essentially the suggestion that the training be undertaken in half the time should have been discussed as it is clearly not an acceptable option. The effect of this along with the terminal delay could have resulted in the C 491 not being brought into service and then the candidate had the opportunity to point out the financial consequences of this and the possibility of delaying the deliveries of the new aircraft. Seeking other simulator supplies would be a useful suggestion providing they are available. Buying more of something which is not available was not helpful, neither was the proposal to introduce week-end team building activities nor buying the supplier of the training equipment. A suggestion that FQA "get a DVD" did not earn any reward. Poaching trained pilots might be unethical but was also unrealistic. Where did the candidates who suggested this think the trained pilots would obtain their training?
10. Discussion on the estimate of income from the C 491 in terms of its realism. This issue was one relating to the income which was forecast to be generated per seat for the C 491 in comparison with that which is earned on average by the current fleet of aircraft. The C 491 anticipates an increase of 22% over the average revenue earned per seat from the current fleet and an increase of 18% on average over that currently earned from cargo. The candidate was expected to express the potential for inaccuracy in these forecasts and point out that if they are flawed then the whole NPV calculation for the C 491 is unreliable.

The candidate could have earned marks for other discussion besides that which is mentioned here providing it was fully justified. The Examiner does not claim to have exclusive rights to all the possible



issues which should be addressed and therefore a candidate who presents a plausible argument on a matter which may not feature in the suggested answer will always be given reward.

There were plenty of opportunities to earn marks in the Judgement criterion. Candidates need to recognise that the quality of their analysis and discussion under this criterion are crucial to their likelihood of success in the examination. Business is all about managing risks. The role of a consultant is to advise. In this examination the consultant should be risk averse and needs to thoroughly discuss the issues on which the final recommendations will be based.

### Integration

The recommendations need to flow from the identification of the key issues and the discussion on each of these. It is necessary to show that the technical analysis is applied appropriately within the discussion and supports the alternative approaches proposed. The candidate needs to recognise the issues contained in the pre-seen and unseen information provided and to provide justification for the priority order in which they should be addressed. Discussion of these issues needs to be thorough and the recommendations which are proposed should logically flow from that discussion. It is not essential for the candidate's recommendations to be consistent with those of the Examiner as long as they are logical and properly justified. The candidate will still receive reward as long as the judgement and recommendations are supported by evidence and effectively argued.

In real life, a consultant who fails to advise on the key issues of the case would not be worth the fee and may lead to disastrous consequences for the employing company. In many cases, candidates did not provide reports which were sufficiently comprehensive and professional and consequently were awarded low marks under this criterion.

### Logic

As a general comment, the candidate is reminded that recommendations of the order of 'should do something about', 'more controls are needed', 'the Board should meet to discuss' lack clarity, are evasive and are not acceptable. In order to earn good marks the candidate must prepare clear, justified, well argued recommendations. It is the strength of the reasoning and justification behind the recommendation that earns more marks than the recommendation itself. All business reports, whether financial or non-financial, include recommendations of alternative approaches, together with justification of why one or more courses of action are recommended. There is no single right or wrong answer with TOPCIMA – it is all down to the depth of discussion and the strength of the candidate's arguments and justification behind the recommendations made that will earn marks. However, ill-thought through analysis and poor recommendations are not rewarded.

Recommendations on the following issues were expected:

- Leasing of the C 491 and seeking better terms for the lease agreement
- Provision of a contingency plan in the event of delay in delivery or operation of the C 491
- Flight deck crew training and investigating sources of simulation equipment which can be supplied more quickly
- New route to the USA and the capability of FQA to carry toxic material and the business sense of taking this contract
- Competing with the low-priced airlines
- Delay in opening of the new terminal at the airport in FQA's capital city

Recommendations on ethical issues are rewarded under the "Ethics" criterion. The recommendations needed to be clearly substantiated and follow logically from the earlier discussion in the report. The recommendations must be justified by the candidate with a clear explanation of why they are suitable and in the best interests of the organisation. The recommendation also needs to be assertive in the sense that the candidate must be unequivocal. The candidate needs to state clearly which recommendations are the most urgent. Urgency is not necessarily an indicator of importance but it is an indication of the sequencing of implementation.

In many cases the recommendations were not assertive or did not follow from the earlier discussion. The candidate needs to be clear and even to state that a recommendation is being made because of a conclusion which was reached in the discussion contained earlier in the report. Too often the

recommendations were not properly related to the earlier discussion and were too brief. Time management was also a clear factor as often the recommendations appeared to be rushed.

### Ethics

There were at least 7 ethical issues in this case which provided ample opportunity to earn marks in their discussion and critically for advice on how they may be handled. Included in the issues were the alleged lavish entertainment, the new leasing agreement with the company run by the Chairman's brother, the proposed government safety recommendations, the delay in the receipt of the simulator, the terminal building delay, attempted manipulation by the Chairman of JJJ and the carriage of the toxic material.

Many candidates declared that FQA should not take the new leasing opportunity because it was being offered by the Chairman's brother. This is naïve. The leasing agreement offered by the Chairman's brother is not in itself unethical providing the Chairman of FQA declares the related party interest and withdraws from the decision. One candidate suggested that the Chairman of FQA should take a lie detector test. What for, what do we think he has lied about?

The candidates frequently identified the issues but were not able to explain why they were considered to be unethical. This is important as marks are available for just such an explanation. Also many candidates identified issues and then did not propose advice on how to deal with them. Candidates also need to realise that illegality is not necessarily unethical. It is plain and simply illegal and beyond the scope of ethics. Increasingly former issues which might have been categorised under the heading of ethics have become enshrined in law which takes them out of the ethical debate. If the act is illegal it should not be carried out, plain and simple. However, it is also recognised that different countries apply different legal systems and laws meaning that what is illegal in one country may not be in another.

Marks are awarded under the ethics criterion for firstly highlighting the issue, secondly explaining clearly why it is considered to be an ethical problem and thirdly, crucially, what should be done to address the issue.

It is not necessary for the candidate to identify all the ethical issues contained within the case. It is however normal to expect a full in depth discussion of at least two ethical issues to gain high marks under this criterion.

## **4. Concluding Comments and Guidance for the Future**

It appears that many candidates sit TOPCIMA without working through past cases which is a puzzle as this is not the way to prepare for an examination. There is a lot more material to read and assimilate, but it is only practicing analysis skills and using past cases that can lead to the necessary improvements to have a realistic chance of success in TOPCIMA.

Candidates are referred to the TOPCIMA Learning System textbook, ([www.cimapublishing.com](http://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. 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. The 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 the candidate in a better position of passing TOPCIMA are:

1. Read the Post Exam Guidance (PEG) reports on the CIMA website (on [www.cimaglobal.com](http://www.cimaglobal.com)) which contain advice from the examiner on areas of weakness and areas that need to be improved. The candidate should read the Post Exam Guidance reports for at least 3 past

exams, as these contain advice that should help to ensure that the candidate does not make the same mistakes.

2. WORK (**not** simply read) through at least 2 TOPCIMA past cases (on [www.cimaglobal.com](http://www.cimaglobal.com) )
3. The candidate should research thoroughly the business setting for the case for which he or she is taking the exam and be totally familiar 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 can be produced in this time. Check the answer to the case writer's answer (in the CIMA Learning System or available from [www.cimapublishing.com](http://www.cimapublishing.com) ) If the candidate has simply read the case writer's answers and has not sat down for 3 hours to see how comprehensive an answer he or she can produce in that time, then the candidate is NOT prepared for this exam. It should be noted that the published answers are intended to be comprehensive and the candidate is not expected to produce anything like this volume of work in the three hours of the examination. However, the main points covered in the published answers are expected to be addressed by the successful candidates.
6. Read the articles on the CIMA website ([www.cimaglobal.com](http://www.cimaglobal.com) ) about the case which the candidate is planning to sit. CIMA commissions independent writers to analyse the pre-seen material and these articles give a good insight into the industry setting and the problems and opportunities the company is facing.
7. Ensure that the report written on the exam day clearly prioritises the key issues raised in the unseen material and consider carefully whether the priorities in the answer are in an appropriate order given the circumstances of the case and that the order is justified.
8. Ensure that the answer covers all nine of the assessment criteria

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

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 the candidate is preparing for. 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 are used in the real world when the candidate becomes a qualified CIMA accountant.

Finally, ensure that the report:

- Demonstrates the research
- Demonstrates a range of knowledge of relevant theories etc.
- Identifies key issues and provides a rationale for the order of priorities
- Evaluates alternative courses of action, focussing on the key issues
- Relates the recommendations to the key issues
- Includes discussion and advice on a number of ethical issues, which have been clearly justified as ethical.
- Satisfies the criteria in the Assessment Matrix, and recognises the inter-relationships between the criteria.