Examiner's report
P5 Advanced Performance Management
December 2014

ACCA

Introduction

Firstly, we would like to offer our congratulations to all of those candidates who achieved a pass at this diet and our commiserations to those who did not.

In this report, our aim is to indicate areas of good and poor performance with the specific additional purpose of helping future candidates assess what is required of them. We have added comments about potential improvements to examination approach that could be made after the commentary on each specific question.

We will begin with general comments about the approach and then provide a commentary on the specific questions in the examination paper.

General Comments

The examination paper comprised two sections, A and B. Section A consisted of one compulsory question for 50 marks in total. Section B consisted of three optional questions for 25 marks each from which candidates were required to answer two questions.

The vast majority of candidates attempted their allocation of three questions and there was little evidence of poor time management in terms of completing the paper. Amongst the section B questions, question 2 was certainly favoured in the number of candidates attempting it.

The examining team continue to be concerned that the advice in past examiner's reports and approach articles does not seem to have been taken up by many candidates. We would strongly advise that candidates use these materials to ensure that they have the right overall attitude to P5, which is intended to lie at a post-graduate level.

As a result, we would offer similar broad comments to past reports. Most examinations require a balance of memory work and evaluation/analysis. As one goes through the levels (say from F2 to F5 to P5) this balance changes, from pure memory to more analysis. Good candidates distinguish themselves by being aware that if they come to this examination expecting to repeat memorised material, they will probably score only between 20% and 30%. Many candidates have clearly been taught that they should define, in their answer, any 'jargon' terms in the question requirement, however, it is wrong to assume that this alone will achieve a passing answer at P5.

Basic knowledge issues at this diet arose in two ways: 1) it was clear that a number of candidates confused terms used in P5 (performance prism confused with the performance pyramid, lifecycle costing confused with product lifecycle, cashflow confused with profit) and; 2) as in previous diets, basic management accounting calculations were not well understood or performed e.g. an inability to calculate the return on capital employed and simple calculations being done incorrectly through an inability to round answers.

The basis of this examination is analysis and application which then leads to evaluation. The candidate will need a foundation in the techniques of the syllabus but should focus more on evaluation of these techniques and consideration of their usefulness *to the given scenario*. This is not difficult to revise as it is a mindset that can easily be encouraged by attempting past papers as an integral part of the revision process. Candidates need to be aware that performance management is an area which, at an advanced level, is dependent upon situation and environment. A good, professional level answer will go beyond the mere repetition of how a technique works and focus on relating it to the entity's specific environment. As in previous diets, it was very clear to the marking team that those candidates that had grasped the need for this went on to pass the paper.

This issue leads directly to the repeated advice to candidates to 'answer the question asked'. There are several detailed examples in the discussion below where candidates answered a different requirement from the one asked or simply ignored a part of the requirement (and thus the marks on offer). There was also a lack of recognition for the suggestions contained within the scenario. Candidates should remember that the scenario is intended to mimic real life, in so far as is possible in the examination context. Therefore, when the CEO of the company that you are advising in a question suggests that 'you do not, at this stage, suggest long lists of additional indicators' then candidates need to realise that they are wasting (valuable) time providing long lists of additional indicators.

Question One

This 50-mark question was based around a multinational, listed engineering business, Boltzman Machines (Boltzman). Boltzman had two operating divisions; manufacturing aerospace and automotive parts. The company has three business initiatives in progress and firstly, the candidates were required to show how these fit within the performance prism. Then the candidates were required to take an existing stakeholder analysis and discuss suitable management approaches from this, including an evaluation of five suggested performance measures. Next, Boltzman needed to be benchmarked against its main competitor with the method of benchmarking evaluated. Finally, candidates were asked to explain the problems of moving to just-in-time manufacturing at Boltzman.

Part (i) for 9 marks, explaining the facets of the performance prism and relating the three initiatives to it, was generally well done, with many candidates scoring 7 out of 9 or higher. There was a minority of candidates who confused the performance prism with the performance pyramid and their responses struggled to be relevant to the question as a result.

Part (ii) of the question, worth 14 marks, required the candidates to select and justify an appropriate management approach to each of four stakeholders and, using this analysis, evaluate five given performance measures. Those candidates that answered the question generally scored well on this part. Many candidates chose to rework the analysis of interest and power stating whether or not they agreed with it, which wasted time when the focus of the answer needed to be on suitable management approaches. The discussions of the five given performance measures tended to be general rather than specific to the issues in Boltzman and the stakeholder analysis and as a result, candidates tended to write many words before getting to the point of their answer.

As mentioned , a number of candidates chose to ignore the advice in the scenario 'The CEO has asked that you do not, at this stage, suggest long lists of additional indicators' and its repetition in the question requirement to 'evaluate the appropriateness of the performance measures suggested in Appendix 1'. Again, these extra indicators (often without any justification) wasted valuable time. It may be helpful for candidates to read all of the question requirements rather than just part by part, since it would then be obvious that the part (iii) deals with suggestions for new indicators.

Part (iii) for 16 marks requested that Boltzman be benchmarked against a similar company General Machines using the five performance measures already in use at Boltzman and providing two more justified measures and then, the approach to benchmarking be evaluated.

While there were many passing answers to this part of the question, there were many basic mistakes made. First, many candidates still do not know how to calculate return on capital employed (ROCE) which is an important ratio. Second, some candidates are careless with simple calculations. Here, this was illustrated by a large number of candidates not correctly rounding figures e.g. 14.7% does not round to 14%, it rounds to 15%. Third, many candidates failed to address the second part to the requirement to evaluate the approach to benchmarking. The approach here was an external, competitive benchmarking. Those that did make an attempt

often only provided a rote-learned list of steps for carrying out benchmarking without assessing how the presented approach matches that ideal. It must be realised that evaluate means consider the pros/cons of a method and this could have also included discussion of the alternative methods of benchmarking (functional/internal).

In part (iv) for 7 marks, candidates were asked to explain the problems of moving to JIT manufacturing at Boltzman. This part was generally well done with most candidates demonstrating a fair knowledge of the JIT processes. However, many candidates that probably could have scored full marks failed to do so as they did not discuss the 'problems' of moving to JIT. Instead, there was a discussion of how to implement JIT or the benefits of JIT with the problems only appearing incidentally. Again, the marking team thought that candidates could have scored more marks, more quickly, by focussing on the question asked.

As has become common, those candidates who had practised writing professional answers prior to the examination performed admirably in the presentation area (4 marks). The markers were looking for suitable report headings, an introduction, a logical structure, signposted by the good use of subheadings in the answer, and a clear, concise style. A conclusion was not required for the 4 marks but if a suitable and substantive one was offered then it was given additional credit.

Future candidates should note the need to learn the knowledge (e.g. definition of ROCE, performance prism) and then apply it in answering the question asked and in addition, ensure that answers are tailored to the specific requirements of the question.

Section B
Question Two
This 25-mark question covered aspects of performance measurement in the context of the waste service of a local government body (BLA). This was the most popular question chosen in section B and was generally fairly well answered.

Part (a) was worth 6 marks and involved explaining the usefulness of non-financial indicators at BLA.
This part was often fairly done. There was, however, notable failure to grasp that cost measures, for example from budgets, are financial NOT non-financial indicators.

Part (b) for 12 marks required the candidates to measure the value for money given by BLA's waste service. This part was also fairly done but not many candidates scored a mark of 9 or above. A major aim of P5 is to give the candidates the ability to structure their work through the models – not just be able to state the models. A number of candidates did not know how to apply the definitions of economy, effectiveness, efficiency and so their indicators (though useful to BLA in general) were rather haphazard. The most common problem was in finding suitable indicators for efficiency with average pay per employee or complaint numbers often being wrongly suggested.

Part (c) for 7 marks required a discussion of the problems of measuring qualitative performance factors and suggested solutions relevant to BLA. This part of the question generated the weakest answers, which was disappointing given the emphasis on measurement of performance in P5. Many candidates could not think of much to say except that this was subjective and gathering data difficult. There were few examples given to illustrate these difficulties and so solutions tended to be vague rather than practical (which is what is required).

Future candidates should prepare to answer questions where they can demonstrate, in a practical context, the differences between financial/non-financial and quantitative/qualitative performance measures in measurement and interpretation.

Question Three
This 25-mark question was based on a choice facing an electricity-generating firm, Maxwell. Maxwell had to replace old power stations with new ones under two constraints; the need to reduce CO2 emissions and; the need to increase generating capacity.

Part (a), for 10 marks, asked for an assessment of two proposed plans for new power stations at Maxwell, given the company's stated environmental goal. Those candidates that took the goal of the company and calculated how the company was performing against two suitable measures and then compared this to the targets set scored well. However, a number of candidates did not take such a logical approach and, for example, often did not check if their calculations lead to meeting the 10% rise in demand or the 20% fall in CO_2 emissions.

Part (b) for 6 marks required a discussion of lifecycle costing issues associated with the plan to build a new nuclear power station. This part was poorly done by some candidates who simply discussed what the product life cycle is with no reference to lifecycle costing. The key elements that were specific to this scenario were the design stage issues and the decommissioning costs and these were often ignored and the focus was on the growth, maturity and decline phases of a product without consideration that the end-product was electricity.

Part (c) for 9 marks required an explanation of how input/output analysis would affect information systems and performance measurement at Maxwell. Only a few candidates knew that input/output analysis is about physical quantities first and foremost (not financial quantities) and so those that didn't went off on the wrong track. As a result, they then did not discuss the issue of trying to interpret this information through attributing financial values which is a significant measurement aspect of this approach.

Future candidates should prepare a logical approach to questions and ensure that if there is a quantified target/benchmark set then their answer explicitly checks performance against this.

Question Four
This 25-mark question was about corporate failure and focussed on a mining business, Culam.

Part (a) for 10 marks required an evaluation of two quantitative failure prediction models and their results for Culam. Answers for this part were generally of mixed quality with the general advantages and disadvantages of quantitative models well discussed but with most candidates failing to demonstrate understanding of how such models are constructed. This did not require detailed discussion of statistical techniques but did require that the candidates realised that the model equations came from an analysis of particular samples of companies whose relevance to Culam was in doubt.

Part (b) for 7 marks required an explanation of the effects of a mine's lifecycle on the Z-score and the probability of Culam's failure. This part was often done with a focus on the discussion of cashflows in relation to the effect on the Z-score, when the model is principally based on the performance measure of profit. At P5, it is expected that candidates are well aware of the difference between these terms and that they are not interchangeable. Also, many answers were solely a description of the cashflows change through a mine's life without connecting this in detail to the probability of failure.

Part (c) was worth 8 marks and required four justified actions to reduce Culam's likelihood of failure. This part was generally well done with many useful practical suggestions for reducing the probability of failure of Culam. Weaker answers often focussed on the need to *measure* different factors (e.g. non-financial) without indicating what *actions* to then take to reduce the probability of failure. General advice such as reduce costs or increase cashflows was only given credit if there was a more detailed discussion of how to do this at Culam.

The important general lesson for future candidates from this question is that they should draw a clear distinction between different performance measures (e.g. profit, cash, and value). They should ensure that they can explain the differences to non-experts and that they know which techniques and models are relevant for each of these different measures.

Conclusion

In conclusion, the main messages from this paper for future candidates are:
- Read the questions carefully and answer the question requirement set
- Defining jargon terms does not represent an adequate answer to a question asking for an evaluation or assessment
- Take care in calculation work
- Practice application of your knowledge in scenario contexts