

Examiner's report

P5 Advanced Performance Management

June 2015



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 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 3 was probably marginally most favoured in the number of candidates attempting it. Question 2 was the least favoured in the number of attempts seen.

The examining team continue to be concerned by the quality of answers that has been observed which is consistent with that of the last eight diets of P5. 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. Whilst defining key terms is helpful, it is wrong to assume that this alone will provide a passing answer at P5. For example, see comments on questions 1(v), 3(c) and 4(a) which were about the application of ideas to specific issues in the scenario and did not warrant long descriptions of those methods.

Lack of basic knowledge was demonstrated by many candidates at this diet and arose in several questions;

- 1) in question 1(ii), though it was clearly stated as useful in the scenario, many candidates did not attempt a breakeven calculation and when attempted, it was only rarely done correctly. Breakeven is a basic tool of management accounting analysis and both it and the topic of cost structures in a business will remain highly examinable going forward;
- 2) in question 3(a), many candidates were unable to show how the four (given) aspects of the customer perspective in the balanced scorecard impact on the behaviour of the three (given) financial metrics beyond repetitiously stating the generality that (in effect) happy customers mean better financial performance and;
- 3) as in previous diets, in question 4(c), there was a lack of understanding of the implications of the choice of the type of responsibility centre used for a division for control purposes.

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 well-worn 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 continuing disregard 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. For example, in question 1, the CEO states the dashboard is to be kept focused and places clear limits on the number of metrics to be suggested thus an answer that is not destined, in practice, for his or her waste bin must observe that constraint.

Question One

This 50-mark question was based around a national, market leader in sportswear, Merkland Sportswear (MS). MS is a product development and marketing business, having subcontracted manufacture to others. Firstly, the candidates were required to assess the performance metrics used currently by MS. Then the impact of two possible responses to an ethical scandal were to be considered and finally, a discussion of the impact of the application of the value chain at MS was requested.

Part (i) for 16 marks, required an assessment of the five existing performance metrics in light of the strategy of the organisation and issues noted in a recent SWOT analysis. This question was often reasonably done but as it is a fundamental question for P5 candidate, further discussion of weaknesses in answers is warranted.

- A significant minority of candidates still continue to respond to such a question with an assessment of the performance of the company. It has been noted in numerous examination reports and in examiner's articles about P5 that the assessment of the metrics is not the same as the assessment of the company's performance. Those candidates who did this wrote much but scored little and so wasted valuable time.
- The majority of candidates still do not appear to have prepared to answer this type of question. Few answers tried to firstly analyse the company's strategy and then use this to assess whether the dashboard metrics were actually measuring the achievement of this strategy.
- Justification of the choice of metric is key to scoring marks in this type of question and this means a reasoned justification. A common example of an unacceptable response was the candidate who wrote, 'I would keep this metric' on the choice of metrics for brand but then moved on to suggesting other metrics for brand. If the candidate had explained why they would keep this metric (e.g. by relating to how it addressed part of the strategy) they could have scored a mark.
- The best part of candidates' answers were on the issues arising from the SWOT analysis though there still seems to be a misunderstanding that P5 is just examining the same areas as P3. Answers often strayed into irrelevant discussion of how to use a SWOT analysis and which strategy MS should pursue.
- Finally, and most worryingly for a practical examination, the majority of candidates ignored the instructions from the CEO to limit the number of metrics suggested. Many answers contained lists of new metrics with no attempt to keep within the constraints clearly laid out in the scenario. Candidates who showed sensitivity to this issue were rewarded. (It should be noted that, in the real world of work, an employee who writes a report, which in section 1 ignores the clear instructions of their manager, will find that the report will probably remain mostly unread and therefore, their efforts will be considered valueless).



Part (ii) of the question, worth 8 marks, required the candidates to use given data to assess the qualitative and quantitative impact of a change of outsourcing partners for footwear manufacture in order to address potential breaches of ethics in the current outsourcing partners. This part was reasonably answered especially the commentary on qualitative impact. However, within the comments on quantitative impact, there was again a significant minority of candidates who appeared unable to perform the calculations. As P5 is an examination of management accounting skills, this is an unacceptable deficiency. As mentioned earlier, candidates generally demonstrated a very poor grasp of a straight-forward breakeven calculation.

Part (iii) for 6 marks considered a second response to the footwear manufacturing issue by bringing production in-house. The question part requested a calculation of the expected profit of a proposed new factory and an evaluation of this as a method of decision-making. This part was generally well done with many candidates scoring full marks.

In part (iv) for 10 marks, candidates were asked to evaluate the impact of the new factory on the values and choices of metrics in the current performance dashboard. Candidate performance in this part was the poorest in question 1. Many candidates attempted to recalculate the dashboard metrics but ignored the fact that the new factory was bringing in-house an existing process and so the change in operating profit was the difference between the new factory's profit and that which was made from existing outsourced sales. However, even if no calculations were attempted a number of candidates put together passing answers by simply going through the metrics and discussing how the new factory impacted on them and what changes should be made now that MS was moving into that type of activity as it had no manufacturing operation prior to this change).

Part (v) of the question, worth 6 marks, required the candidates to consider the impact of using the value chain at MS. A lengthy description of the value chain was not requested though often offered. A good answer showed how the existing operations of MS and the proposed changes to footwear sourcing would affect performance measurement and management at MS. Answers were often weakened by not attempting to make the answer relevant to MS.

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. It may be worth noting that introductions of the form 'I have addressed the issues relating to performance management at MS.' are inadequate. A more substantive description of the contents of the report is required.

Future candidates should practice this question for future papers as it illustrates a number of common and fundamental questions that are faced by the advanced performance management advisor.

Section B

Question Two

This 25-mark question covered aspects of performance measurement and management in the context of an electronics manufacturer (Forion) which is introducing an ERPS and has formed a strategic alliance with a component manufacturer (BAS) to produce smartphones. This was the least popular question chosen in section B though it was generally fairly well answered.

Part (a) was worth 10 marks and involved discussing the integration of Forion's information systems within the new ERPS and its impact on performance management. This part was often fairly well done with many good answers relating to the three specific problem areas in information management at Forion.



Part (b) for 8 marks required the candidates to evaluate the usefulness of the three critical areas from the strategic alliance agreement described in the question for Forion to measure the performance of BAS. This part was generally fairly well done with candidates showing a good appreciation of how BAS's performance links to Forion's. The most common fault in answers was a failure to focus on the performance measurement aspects of the areas.

Part (c) for 7 marks required an evaluation of the reliability of financial and non-financial data from internal and external sources. This has been a common topic in past examinations and performance in this question was unexpectedly poor. Many candidates seem unaware of what constitutes internal and external sources and surprisingly many consider audited, financial data to be amongst the least reliable sources. Possibly as a result of these weaknesses, the markers saw numerous answers that discussed only the type of information that both parties to the alliance would need without discussing its reliability.

Future candidates should prepare to focus their answer on the area required in the question, for example, by understanding the difference between performance measurement and management.

Question Three

This 25-mark question was based on the application of the balanced scorecard at a logistics support business, Victoria. This was the most popular of the section B questions and was generally well answered.

Part (a), for 5 marks, asked for a discussion of the links between the customer perspective (and four success factors were given in an appendix for this) and the three financial metrics also given in the appendix. Those candidates that showed how success under each factor linked to changes in each of the three metrics scored all the marks. However, many candidates chose not to answer the question and instead discussed how the customer perspective factors aided achievement of the business strategy or else had a broadly positive effect on the financial position of the business. These were inadequate answers from P5 candidates who are expected to be able to talk in detail about factors affecting ROCE, profit margin and revenue growth. Worryingly, many candidates assume that revenue growth automatically means profit margin improvement and so improvement in ROCE, without any further consideration of cost or capital implications.

Part (b) for 11 marks required a justified recommendation of a suitable metric for each of the four customer perspective success factors, followed by comments on the problems of using customer supplied data. This part was well done by most candidates with many scoring 10 or 11 out of 11.

Part (c) for 9 marks required advice on reward management issues at Victoria. The CFO had supplied specific issues around senior and operational management rewards. This part was surprisingly poorly answered. Many candidates used the building block model as a template for their answer but failed to go further than a generic response and did not address the specific issues for Victoria. Successful candidates briefly outlined the model and then showed how each aspect could be applied to the situation at hand.

Candidates seemed unwilling to say that the employees (senior management/operational managers) may be unhappy but that need not be an issue for Victoria as there will usually be a conflict of interest between the employees and the company/shareholders. Good answers identified and discussed how to address this issue fairly. Baldly stating that employees should set their own targets is not a practical solution.

Future candidates should address the specific issues in a scenario in order to give commercially valuable advice to those involved.

Question Four

This 25-mark question was about divisional performance and management and focused on a food manufacturing business, Beach.

Part (a) for 8 marks required an assessment of the use of EVATM as a divisional performance measure at Beach. Generally, this was done reasonably well. Those candidates who attempted to show how EVATM could be affected by conditions in the two relevant divisions scored well. However, the question did not require any lengthy description of how EVATM is calculated. This should have been obvious as the company is already using this measure for its overall performance.

Part (b) for 7 marks required a calculation of two alternative divisional performance measures (return on investment and residual income) and an assessment of the assumptions made in these calculations on divisional and managerial performance. Those candidates who realised the nature of the assumptions in their calculations, specifically the difference between divisional and managerial performance, scored highly. They considered the choice of profit to use in their calculations as central and calculated the profit from multiple perspectives. Many candidates realised that there were different profits to use but did not do the numerical work and so their answers lacked the evidential support that was clearly within their ability to produce.

Part (c) was worth 10 marks and required justified recommendations on divisional control and management style at Beach. This part was poorly answered as many candidates clearly did not know the criteria for the choice of responsibility centre (the centre headings to choose from were given in the scenario). This lack of knowledge has been noted in previous diets and continues to surprise the examining team. Lengthy descriptions of the three management styles were not helpful here as the candidate was expected to demonstrate that understanding through the application of the ideas to the scenario.

The general lesson for future candidates from this question is to learn not just the models or jargon but how to apply them in a specific scenario. This is typically only possible through question practice and not merely learning generic answers that can be ported from one question to another. Candidates should also make sure that they understand issues around responsibility accounting and the choice of responsibility centre for controlling a business unit.

Conclusion

In conclusion, the main messages from this paper for future candidates are:

- Answer the question requirement (not your own version)
- Understand the difference between questions on the choice of metrics and the performance of companies
- Learn (or revise) fundamental knowledge, such as on breakeven; sources of information; responsibility centres
- Practise application of your knowledge in scenario contexts