Examiner's report
P5 Advanced Performance Management
December 2016

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 question.
We will begin with general comments about the approach and then provide a commentary on the 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. However, the team would like to suggest that candidates spend sufficient time reading the requirements to ensure that they fully understand what is being asked of them. Many candidates wrote long answers based on a question they thought had been asked but was not in line with the requirement.

The examining team continues to be concerned by the quality of answers which have been observed and which is consistent with that of the previous 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.

Principally, this means paying specific attention to the question requirement: at P5, questions demand that scenarios are "analysed", "evaluated" and "assessed" rather than described. The difference is fundamental and crucial as an analysis involves a study of applicability rather than a description. Also, providing a history of how and when such a model was developed, although interesting, adds little benefit when providing advice. Such an approach is straightforward to adopt when considering past papers and should be the basis for any revision strategy. Knowledge of any technique is essentially taken for granted at this level. The essence of P5 is the application of this knowledge to a practical scenario and it is the demonstration of these skills which will make for a successful response at P5.

Candidates who come to this examination expecting to repeat memorised material 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, they are wrong to assume that this alone will provide them with a passing answer at P5.

A lack of basic knowledge was demonstrated by many candidates at this diet – whether this be the inability to adjust a budget by an applicable percentage, or failure to recognise the difference between profitability and liquidity.

Candidates also failed to answer all parts of a requirement. For example, where a question required specific calculations and then comment on the results, many candidates provided very weak and superficial comments, and in some instances, no comments at all. It is essential that candidates attempt all parts of each requirement. In many instances the discursive elements allow good candidates to score marks quickly compared to numerical

calculations – the examining team always support students discussing results and developing these points with regards the impact to the company detailed in the scenario.

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. Also, those candidates who specifically answered the requirements, addressing each part specifically, paying attention to the relevant verbs scored well. It should also be noted that candidates scored well on professional marks on this diet, and future candidates should be aware that well-structured, professional answers are essential to score these marks.

Question One
This 50-mark question was based around performance management and the use of reports and metrics to improve performance.

1 (i) asked for an evaluation of the current reporting system and the choice of metrics being used. For an evaluation candidates should ensure they provide clear discussion regarding both good points and bad points of what is being evaluated. It is also essential to explain why something is good or bad. For example, stating that there is a lot of detail could be an advantage or a disadvantage depending on the users of the information. Therefore, candidates should clearly explain their logic behind such statements. Also, some credit was given to suggesting other metrics which may be useful, but candidates should ensure that they do not provide a long list of possible metrics without evaluating the ones that are currently used.

1 (ii) asked for an assessment of how the quote 'what gets measured, gets done' applies to the company in the scenario. Answers to this part were often very superficial, many discussing the general benefits of setting targets. Candidates should ensure that they explain what such a term means, and then specifically assess whether or not it applies to scenario. Those candidates who gave specific examples relating to the scenario scored well in this section.

1 (iii) was about decision making under risk and uncertainty, and required candidates to perform relevant calculations and then provide appropriate advice. Candidates generally attempted this question well, although many only used one method to appraise the decision when the requirement clearly asked for 'methods'. It should also be noted that clear workings for calculations should be shown. Several incorrect final answers were presented with no underpinning calculations. Marks are awarded for the correct method even if a mistake has been made previously, therefore candidates must show their workings to demonstrate that their methods are correct.

1 (iv) asked for an evaluation of the financial significance of an intangible asset and how it is managed. This question was generally badly done as many candidates failed to focus on the fact that the question asked for the 'financial' significance. This is another example of candidates not answering specifically what is required. Some marks may be available for descriptions and importance, but the majority of the marks will come from points made regarding financial aspects such as the impact on revenue and costs.

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 credit. As mentioned previously, performance in this area was noticeably better than in previous diets. However, it may be worth noting that introductions of the form 'I am writing this report at the request of the directors' are inadequate. A more substantive description of the contents of the report is

required.

Section B

Question Two

This 25-mark question covered the preparation of budgets and evaluating the relative benefits of introducing a new budgeting system in a food manufacturing business.

Part (a) was attempted well by many candidates, and the layout of the answers was generally excellent. Although some of the calculations in this part of the question were tricky, candidates at the Professional Level, who read the requirement carefully should have had few problems here. The examination team was disappointed to see how many candidates could not adjust forecasts by a set percentage, or struggled to compensate for a change in an exchange rate. As mentioned above, candidates must ensure that all relevant workings are shown. Too many incorrect answers were presented without supporting calculations, and thus marks for method were potentially lost.

Part (b) was generally well done and most candidates who attempted this question scored at least half marks on this part. It was pleasing to see many candidates adopting a sensible structure to their answers here – explaining the budgeting system, discussing advantages and disadvantages of the system with regards to each division, and then making a suitable recommendation. It is recommended that candidates identify a clear structure for their discursive answers to ensure that all areas of the requirement are covered, and relevant examples to the scenario are used.

Question Three

This 25-mark question was based on the application and usefulness of a particular performance management model in a manufacturing company.

This question was the most popular in Section B; however candidates generally performed poorly in both parts a) and b).

Part (a) asked for an assessment of the appropriateness of the performance measures given that an analysis of the business had already been performed using a particular performance management model. However, many candidates repeated the analysis and concluded that the results in the scenario were correct. Some candidates simply explained what the model was and discussed the advantages and the disadvantages of using it. Very few marks, if any, were given to either of these two approaches. The question also required candidates to recommend alternative measures if necessary, which led many to simply list out generic measures that could be used by a company. This again resulted in few marks being awarded. At the Professional Level it is important that advice is always given in the context of the company it relates to. Candidates who did score well on this question appraised the measures that were currently being used and gave a narrow range of justified alternatives that were appropriate.

Part (b) asked candidates to evaluate the usefulness of a particular performance management model for the company in question. Several candidates simply repeated what they had written in part a). This is evidence of poor planning by candidates and the examination team would recommend that candidates carefully read each question in Section B before choosing which two of the three questions to attempt. It is clear on this question that many candidates recognised the model in question, and felt confident that they would be able to discuss it well, without identifying what each of the two parts required. Explaining what a model is and how it works will score few marks here. For something to be useful it has to have an impact on the future decision making and/or performance of the company. It should also be noted, which was missed by most candidates, that if a question asks for an evaluation of the usefulness of a model it is appropriate for candidates to also discuss the disadvantages or limitations of using such a model.

Question Four

This 25-mark question was based around corporate failure and liquidity indicators in a service business.

Part (a) required candidates to calculate a score for a hypothetical model provided in the scenario and then discuss the usefulness of such models. Candidates generally answered the first part of this question very well, with many calculating the correct answer. However, some candidates then failed to answer the discussion part of the question altogether, whilst some chose to discuss alternative models ignoring the guidelines in the scenario. Candidates should be reminded that information given in the scenario has been specifically provided to guide and help candidates produce their answers, and the information there should be used in priority to other alternatives that candidates may have learnt prior to the examination. Several candidates chose to discuss other models in great length, explaining why they may have been more suitable methods to have used. This is evidence of candidates having rote learned advantages and disadvantages of models in advance and looking to include them in their answers whether or not they are specifically relevant to the requirement. This approach is unlikely to score any marks at this, or any other, level. It should be noted that a large number of candidates did answer this question to a high standard with many scoring full marks on part (a).

Part (b) asked for advice on using liquidity indicators and an assessment of the likelihood of corporate failure of the company. Like part (a) this was again answered very well by several candidates, some achieving full marks on this part. However, disappointingly, a significant minority failed to identify the difference between liquidity and profitability which led to any assessment of corporate failure being invalid. Also, care should be taken to ensure that any calculations performed are appropriate to the scenario e.g. the current ratio may be useful for assessing liquidity, but once this has been calculated no marks will be awarded for the calculation of a quick ratio (acid test) if the company does not hold any inventory. In a time-pressured exam candidates will be disadvantaged producing work that adds little or no value given the scenario, and thus thought should be given to what would be useful before calculations are performed.

Part (c) asked for factors that might have led to corporate failure. As with the previous two parts, many candidates performed well on this part. However, several failed to achieve full marks due to their written answers being too brief. Stating a fact already given in the scenario, even if it is potentially a relevant factor, will score few marks unless the candidate specifically explains why it is relevant to the scenario under discussion. A common mistake here was that candidates failed to discuss factors that might lead to failure, and instead discussed symptoms. Again, as with other parts of this exam, this is evidence of candidates answering the question they potentially wanted to answer or what they have learnt prior to the exam, as opposed to specifically answering what the requirement asked for.

Conclusion

In conclusion, the main messages for future candidates, similar to those given in the past, are:
- Read each requirement carefully and specifically answer the question that has been asked. It may be useful to expand/develop points, but ensure that all parts of the requirement have been answered.
- Understand the main theoretical models etc. but specifically and how to apply them.
- When considering a technique or model, consider some of the issues and areas that may be affected by its implementation and development. This is an area that is always relevant to performance management.
- Practice application of your knowledge in scenario contexts – revising using past papers and answering the questions - is a good way of getting into the mind set to help you achieve a pass in P5.