



Examiner's report

Advanced Performance Management (APM) June 2019

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

General Comments

The examination comprised two sections, A and B. Section A consisted of one compulsory case study question for 50 marks in total. Section B consisted of two compulsory questions for 25 marks each.

The majority of candidates attempted the allocation of three questions. Question 3b) was often omitted from candidates' responses and the second part of Question 1(i) was rarely attempted. These omissions did not appear to be due to time pressure and the omissions may have been down more to poor examination technique (not reading the full requirement in Question 1(i)) or a lack of understanding of the scenario (in Question 3b).

Most candidates undertook the questions in sequential order but it was noticeable that if they did not, and undertook Question 1 as the final question, performance on Question 1 tended to be worse than for those candidates who undertook the questions sequentially. Undertaking questions in whichever order seems most appropriate for each individual candidate is not in itself at all bad practice. However, this technique does tend to see candidates spending a disproportionate amount of time on either/both of Questions 2 and 3, leaving themselves insufficient time to address the demands of Question 1 which is worth 50% of the marks. Candidates should always remember that they should spend the amount of time on a question that is proportionate to the marks awarded and the time available. In a 3-hour examination, therefore, it is only appropriate to spend 45 minutes on a 25 mark question.

We would strongly advise that candidates use the Examiner's Reports and Approach articles to ensure that they have the right overall attitude to Advanced Performance Management (APM), which is intended to lie at a post-graduate level. Most examinations require a balance of memory work and evaluation/analysis. However, as one goes through the levels of the ACCA Qualification 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 material they have memorised, 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, they are wrong to assume that this alone will provide them with a passing answer in APM as the fundamental basis of the examination is about application and evaluation of techniques and methods in a business scenario.

There were areas where candidates scored very well, in particular on Question 1(ii), 1(iii) and, generally, Question 3a). However, there were areas where candidates both appeared to lack basic knowledge and either an ability to apply it or evaluate its relevance in the context given. The first step to passing APM is to have a good grasp of the basic knowledge. However, at this diet, a lack of such knowledge was particularly clear in:

- Question 1(iv), where the impact of sources of information on the management of quality within an outsourcing contract was sought,

- Question 2a) where the key characteristics of a service business might create problems in the performance measurement and management of quality of service and resource utilisation was examined and
- Question 3b) where a request was made to consider variances between budgeted and actual cost in a clothing retailer.

Building upon that knowledge, candidates need to be aware that performance management is an area which, at an advanced level, is dependent upon situation and environment - as exemplified by the need throughout the examination to relate or illustrate points by using the information relating to the business in the scenario. 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 examining team that those candidates that had grasped the need for this went on to pass the exam.

This issue leads directly to the previous advice to candidates to 'answer the question asked'. There are several examples in the discussion below where candidates answered a slightly different requirement from the one asked or simply ignored a part of the requirement (and thus the marks on offer). Whereas every attempt is always made to reward meaningful, commercially aware and insightful analysis, such analysis has to be within the specific context of the question asked to score well.

Finally, and critically, in order to pass APM, candidates need to be capable of analysing and evaluating the situation in the scenario using their technical knowledge. This is fundamental to the marker's judgement of whether they are competent at this level. Thus, it is essential that they provide justification for opinions expressed and go beyond mere calculation by explaining the implications of their results. See the comments in this report on Questions 2a) and 3a), in particular, for illustration of this point.

There were a number of issues that arose which, while not common to all answers, would certainly represent broad generic areas where candidates should be able to improve upon their performance in the future:

- Failing to read the specific requirement around the question, particularly appropriate to Questions 1(i) and 2b).
- Spending a great deal of time giving definitions – Questions 2a), 3a) and 1(ii) in particular – rather than in evaluating the scenario as requested.
- Understand from previous Examiner's Reports that APM is an examination based on justification and analysis. Writing almost exclusively in single sentence paragraphs is not conducive to justification and analysis as such a style tends to introduce a point and does not offer anything further by way of analysis or justification. It is important in APM that points made are supported and justified and it is clear that a single sentence paragraph, bullet-point style, is the very antithesis of this.
- Not sticking to specific question requirements – Question 1(i) asked for two key performance indicators only per critical success factor and many candidates offered three or sometimes four.
- Offering unjustified, commercially naive suggestions which demonstrate a lack of understanding of the scenario – for example, the suggestion of adopting an ERP system for both questions 1(iv) and 3a).

- Making the same point repetitively. This was evident particularly in 2a) where the issue of the service being different every time it was delivered was made on several occasions by many candidates.
- Trying to ensure both handwriting and layout of answers is as clear as possible.

Specific Comments

Question One

This question required candidates to consider issues of justifying performance measures, undertaking a target costing exercise, examining the division of responsibility for quality costs in an outsourcing contract and assessing the impact of sources of information on the management of quality within an outsourcing contract. The company in question was a manufacturer.

Part (i) required a recommendation and justification of two key performance indicators (KPIs) for each critical success factor (CSF) and an assessment of the use of the resultant KPIs in measuring the strategic performance of the company. This part of the question was out of 16 and candidates generally scored about half the marks available. Part of the problem candidates encountered here appeared to be in not fully comprehending, for the first CSF, that it was two particular groups of capital providers who had to be satisfied. Many responses suggested KPIs that were clearly not relevant to the scenario in this regard. It is also clear that many candidates felt that justifying the measure they had offered could be undertaken by providing a definition of that term. Clearly, such comments are not appropriate when a justification is being sought. Candidates also found it challenging to offer KPIs for CSFs that were essentially non-financial in nature and many responses offered financial KPIs which were not justified in the context of the CSF they were discussing.

Almost all candidates ignored the second part of the requirement of the question and the examination team cannot comprehend why. The requirement made clear that the CEO wanted an assessment of the group of KPIs to measure strategic performance. The relation of KPIs in measuring strategic performance is a topic which is examined almost every day in APM and it is not possible that candidates could have been unaware of this topic area or that they found it too challenging. It is essentially the fundamental skill that is being tested in the evaluation of any performance report and it is something that candidates should realise is one of the main learning outcomes of the APM examination – put simply, are the measures that they have come up with appropriate and fitting for the company to help it achieve its overall aims?

Part (ii) was out of 10 marks and asked for a target costing calculation to be undertaken with an explanation as to how the result would impact on negotiations with an outsourcing company. Candidates appeared to be very well prepared for this topic and the calculations were generally accurate. Most candidates scored about 8 out of 10 for this question and some of the analysis with regard to the effect on negotiations was insightful with candidates discussing specific elements of cost and how they were likely to relate to the two companies.

Part (iii) asked for an explanation of the four quality cost areas and an evaluation as to how responsibilities for them may be divided in an outsourcing contract. This question was worth 11 marks and most candidates passed this part of the question. Though this question was generally well done, however, there was a significant minority of candidates who did not understand what

quality costs were and discussed costs in general. This is a fundamental lack of basic knowledge and such responses did not address any part of the question asked. Most candidates, however, offered explanations of each of the cost terms though clarification that cost was the focus of these areas would have helped. For example, candidates might indicate that: “internal failure costs are products that fail before they reach the customer” when it is the costs that are associated with that failure (cost of scrap or cost of rework, for example) that is the explanation sought. Some candidates also struggled to divide responsibilities accurately and did not refer to the specifics of the scenario to explain their response. With regard to external failure costs, for example, most candidates assumed that it would be the company who subcontracted the production that would be wholly responsible for these costs. It is clear, however, that if such errors and costs related to errors made by the company that was subcontracted to manufacture the product, the replacement cost would lie with them, even if the reputational damage with regard to the end-customer lay with the company that subcontracted the manufacture.

Part (iv) was out of 9 and asked for an assessment of the impact of the sources of information on the management of quality within the outsourcing contract. Candidates found this part of the question very challenging and most candidates did not pass this part of the question. Responses here were either brief or not relevant to the scenario. Many candidates responded to a slightly different question, which was much more focused towards the qualities that information should have. Such responses did score some marks but did not address the main focus of the question, which was around the sources of the information. Few candidates highlighted that the subcontractor had to have certain quality metrics stipulated and they required faith in the systems of the subcontractor to be able to report these metrics both accurately and, if possible, in real time. Candidates also often offered unjustified, commercially unaware suggestions such as the companies purchasing an Enterprise Resource Planning (ERP) system. Such systems are very expensive and the overall profit on the venture would not justify further expenditure of this nature.

As is now common at APM, 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. Performance in this area was generally very good with most candidates scoring 3 or 4 marks.

Question Two

This question required candidates to assess how the characteristics of a service business may create problems in the performance measurement and management of quality of service and resource utilisation and, in part b), to use the Fitzgerald and Moon building block model to evaluate whether a proposed reward scheme would encourage set standards to be achieved.

Part a) was worth 10 marks and tested candidates’ knowledge on the specifics of the applicability of intangibility, heterogeneity, perishability and simultaneity in relation to an organisation which provided cosmetic procedures to customers. Most candidates could offer definitions, with an example appropriate to the scenario, of the terms, though it was also clear that some candidates had not undertaken any revision in this area and were unclear as to any of the meanings of the characteristics. Most candidates narrowly failed this part of the question. Other candidates erred in assuming that a term such as heterogeneity related to the different types of cosmetic procedure the company undertook, rather than the fact that no two procedures are exactly the same.

Most candidates did not address the main demands of the question with regard to discussing quality of service and resource utilisation. Instead of discussing the implications with regard to quality of how unlikely the procedures would be performed to exactly the same standard on different occasions, candidates who correctly defined heterogeneity tended to only indicate that this state existed and then moved on to defining the next characteristic. There was also little discussion or analysis of resource utilisation, which would have been particularly appropriate to perishability when there is unpredictable demand. Candidates tended to indicate that the organisation could not keep inventory but did not address the problems of having resources available when there is increased demand.

Candidates also repeated themselves in this question to a significant extent, perhaps because they did not develop the analysis to the level required. Comments would end, in discussion of each of the characteristics, with observations on how it was very hard to have a consistent standard and how no two procedures were the same. Whereas such comments are certainly relevant, the repetition of them throughout the response should have acted as a prompt to candidates that further analysis was required.

Part b) was worth 15 marks and tested the applicability of the rewards part of the Fitzgerald & Moon building block model. Most candidates scored less than half marks on this part of the question. This question provided a very clear example as to why candidates must address the specifics of the question asked. The focus of the question was the reward system, not the dimensions and standards. However, many candidates discussed the applicability of the dimensions and the standards, areas which it was very clear were not part of the requirement, as well as the rewards. Such answers were doubly disadvantaged as valuable time was wasted discussing areas that were not asked about and candidates were inevitably left with less time left to spend addressing the requirement of the question. This is something that can be learned as exam technique, perhaps through looking at past examination questions with model solutions.

This approach tended to mean that most answers did not address the rewards in the depth that was required. For example, candidates might highlight that being rewarded on net profit was potentially unfair to the staff, as it contained factors outside of their control but candidates then tended not to evaluate what these factors were or point to the relevant areas detailed in the scenario. Concerning, also, was that a significant minority of candidates were not aware of the three areas of controllability, motivation and clarity that the building block model highlights are necessary for the reward system to operate effectively.

Perhaps of more significance with regard to responses lacking the necessary depth, most candidates did not address the potential conflict between, and the effect on behaviour of, the three measures. In a desire to increase the number of customers seen per day), for example, there must be a significant risk of a fall in quality of the service provided and a resultant fall in profitability. The desire to increase net profit may also lead to staff to rush the procedure and affect the quality of the provision and reputation of the company. These are the kind of key examples of conflict that the examination team hoped that candidates, using the building block model framework, would refer to and discuss but such a level of analysis was not very noticeable.

Question Three

This question required candidates to evaluate whether a clothing retailer should change its budgeting system to an activity based one and then to complete some figure work for an activity based budget, offering an explanation for any variances.

Part a) was worth 13 marks and candidates generally performed well in this part, if not in all parts of the evaluation. The answer required a consideration of the advantages and disadvantages of both the current system (incremental) and activity based budgeting (ABB) before offering a justified conclusion as to what the company should do. Candidates would rarely undertake all of these requirements: some, for example, would focus exclusively on ABB and not refer in any detail or level of analysis to the current system whereas others might suggest disadvantages of the current system without explaining the advantages. It was evident from the scenario that advantages must have existed as the company had been successful over the 18 years it had used the current budget method. Most frequent of all, however, was the lack of any conclusion or, alternatively, the suggestion of a conclusion – “the company should adopt ABB”, for example – without any justification offered.

This highlights an area where candidates should be more prepared. The use of the word “evaluate”, as has been highlighted in previous Examiner’s Reports for this examination, means that candidates should assess the strengths and weaknesses of the arguments that arise, in relation to the scenario that is detailed, before coming to a justified conclusion as to what the company should do. Seen in that light, this should have been a question where most candidates were scoring at least ten marks. Both the budgeting methods would have been well known to from Performance Management and the issues that arose from them were very clear from the scenario.

One other area where candidates did not score as well as they could have in part a) was in offering definitions of terms such as incremental budgeting and, in particular, on ABB without directing the comments that they made towards answering the question’s requirement. It is always worthwhile offering a very brief definition of any technique or technical term to demonstrate comprehension but candidates should be aware that such comments are not worthy of many, if any, marks and that it is the evaluation of those techniques with regard to the specifics of the scenario that the examining team wish to see.

Candidates also tended to bring in other techniques that were not relevant to the requirement of the question here and such a practice is generally to be avoided as the examining team has focused candidates’ attention on the specific areas that they wish to examine. In this part of the question, for example, candidates frequently commented on zero-based budgeting (ZBB) or rolling budgeting. An analysis of such techniques may have been relevant had the question requirement been more open – “evaluate whether the company should change its current budgeting system”, for example – but the requirement in this case was to evaluate a prospective change from the current system to ABB. In terms of examination technique, candidates should focus their responses on what they have specifically been asked to address and, in this case, discussion of any other budgeting technique is irrelevant and represents a waste of time which candidates could have deployed better elsewhere.

Part b) was worth 12 marks and was not well done with many candidates not undertaking it at all. Those candidates that did undertake it tended to score most of the calculation marks. Candidates who did not score well did not appear to realise that they had to work out how many manual

workers were needed to be employed by the company. It was perhaps an inability to calculate this figure that confused some candidates as the rest of the calculations, as with the one above, were straightforward. Most candidates gained comment marks for the insights they offered even if their initial calculations were incorrect.

Candidates also tended to err with regard to the heating and lighting costs in this part of the question, not realising that the proposal for an increase in cost in an environment of zero inflation should not be accepted in an activity based budget. This was a key part of demonstrating the difference between the inefficiencies that the traditional system would allow to be carried forward from year to year and the new system which required justification for the figures used.