



# Examiner's report

## Advanced Performance Management (APM) September 2018

### General Comments

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

The majority of candidates attempted their allocation of three questions and there was little evidence of poor time management in terms of completing the examination. However, it was noted that some of the questions in Section B were answered poorly and/or briefly. This may be an indication that some candidates were not prepared for the fact that the structure of the examination is now entirely compulsory with no optional questions; meaning that candidates had to potentially attempt questions that they may have not chosen previously.

The examining team continue to be concerned by the quality of answers that has been observed which is consistent with that of the previous diets of APM, although the overall performance has increased slightly. The advice in past examiner's reports and approach articles does not seem to have been taken up by many candidates. The team would strongly advise that candidates use these materials to ensure that they have the right overall attitude to APM, which is intended to lie at a post-graduate level.

Principally, this means paying specific attention to the question requirement: at APM, 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 examinations and should be the basis for any revision strategy. Knowledge of any technique is essentially taken for granted at this level. The essence of APM 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 in this examination. For example, part of Question 1(i) required candidates to assess whether the existing KPI's used by the company covered the financial perspective of the balanced scorecard model (BSC), but a large proportion of candidates spent time explaining the BSC and discussing its advantages and disadvantages. Candidates who come to the APM 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 APM.

A lack of basic knowledge was demonstrated by many candidates at this diet – the majority of candidates could not calculate Return on Capital Employed (ROCE) and Operational Gearing correctly, and only marginally more could calculate Financial Gearing. All of these calculations have been tested in many of the examinations in the Applied Knowledge and Applied Skills levels of the ACCA Qualification and candidates must be prepared to use the knowledge from underpinning examinations at this level, albeit the emphasis moves from just calculating the ratios to understanding their implications given the specific scenario. These are core skills at the Strategic Professional level.

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 examination. Also, those candidates who specifically answered the requirements, addressing each part and paying attention to the relevant verbs scored well. For example, Q2(a) required candidates to evaluate the usefulness of a corporate failure model for two different companies. Those candidates who evaluated i.e. used the scenario in light of the arguments for and against scored well. Those who simply explained the mechanics of the calculation did not.

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. This has been a consistent trend over recent diets and the examination team would like to congratulate candidates for taking note of the comments in previous examiners' reports regarding professional marks.

## **Specific Comments**

### **Section A**

#### **Question One**

This 50-mark question was based around a security company and required candidates to consider the use of two appendices both with a relatively small amount of information relating to key performance indicators (KPIs) and summarised financial statements.

Part (i) asked candidates to respond to a request of work from the chief executive officer (CEO) which specifically was to assess whether the current KPIs covered the financial perspective of the balanced scorecard, to recalculate ROCE and then suggest reasoned KPIs within each of the other three perspectives. Note that this requirement meant that candidates needed to refer to the scenario to find out exactly what the CEO was requesting and this style of requirement will continue to feature in APM. Many candidates failed to refer to the work that was specifically asked for in the scenario, and instead spoke generically about what the balanced scorecard was, including advantages and disadvantages, neither of which were asked for, and ignored the request as to whether the current KPIs covered the financial perspective. Similarly, candidates were required to suggest two reasoned KPIs for each of the other three perspectives, but many candidates ignored these specifics – some gave only one KPI each, some gave more than two. Several candidates simply stated the KPI with no justification behind it. For example, it can be useful to have staff turnover as a KPI for any organisation but without a candidate stating that for this organisation it is useful because it is struggling to attract and retain staff they can score little credit.

Worryingly, many candidates simply did not appear to understand what a KPI is, and instead provided advice on what the company should do to improve performance.

Part (ii) focused on the problems of measuring and managing performance using non-financial performance indicators (NFPs). Overall, this was the best part of the examination for many candidates, and it was clear that many essentially understood the main issues and discussed them well. However, the requirement specifically asked for examples relating to using customer surveys. This was missed by several students who generally discussed NFPs as being difficult to define or measure but made no reference to customers or surveys. Candidates should be aware that their answers should relate specifically to the requirement in order to score well.

Part (iii) was about Hopwood's management styles. Again this part of the examination was answered relatively well by most candidates. Those who were well prepared on this topic scored well. The question specifically asked for a recommendation of an appropriate style, and it was pleasing that the majority of students attempted to give a recommendation, even if the recommendation was potentially incorrect. The examining team would like to stress the importance of attempting all parts of the question. Recommendations are often based on ambiguous information, and candidates can be awarded credit even if the recommendations differ to those in the model answers, as long as they are sensible and well argued.

Part (iv) required candidates to provide advice on the management of setting targets and using them in an appraisal system. Several candidates tried to incorporate Fitzgerald and Moon's Building Block Model in this part of the examination. Credit was awarded to the parts of this that were relevant, but it should be noted that if the requirement is only worth eight marks, it is unlikely that a model that was not specifically asked for was required to answer the question, and even less likely that marks would be awarded for explaining the model in detail. That being said, candidates generally scored well in this section, with good practical suggestions, often backed-up with examples relating to the scenario. However, candidates should also take note of information in the scenario, which in this instance specifically stated that *'no changes to the reward system are desired'*. Therefore, few marks, if any, were awarded to discussion relating to changes in the reward system.

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 examining team was 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 four marks but if a suitable and substantive one was offered then it was given credit. 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.

Overall, the performance on Question 1 was good. The main difference between candidates scoring well or poorly was mainly anchored on whether or not the requirements were specifically answered. It is always advised to spend time reading the requirements, and identify exactly what the verbs in each question are, and then produce appropriate answers accordingly.

## Section B

### Question Two

This question focused on corporate failure, and specifically in relation to two companies who both supply construction services to the oil exploration industry. Within the scenario, the K Score model of corporate failure was introduced. This was a fictional quantitative model developed in the country where one of the companies was located. Details of the formula for calculating the model, guidance on interpreting the results, and a summary of how the model was derived were all provided in the scenario.

Part (a) of the question required candidates to discuss the usefulness of the model for predicting corporate failure for both companies. Candidates scored relatively well here, correctly identifying many of the strengths and weaknesses of quantitative models. Those candidates who then specifically related these strengths and weaknesses to the varying circumstances of each company – that they were situated in different countries,

one was a private company whereas one was listed etc. – were awarded more credit.

Part (b) required candidates, using the model given, along with the data for one of the companies, to calculate the K score and assess if the company is a risk of corporate failure. This question was attempted relatively well by most students, with most scoring above half marks, with many scoring four or five out of five. However, it should be noted that the formula to calculate the K-score was given, along with the formulae for the variables. The majority of candidates who did not score well, or even failed to score full marks, simply could not correctly use the formula, or failed to correctly calculate Market Value of Shares or Net Current Assets, both of which are straight-forward calculations and should be very familiar to candidates at this level. Several candidates also calculated the K Score for the other company, which was not asked for in the requirement. Even if this was calculated correctly, no marks were awarded for this.

Several candidates confused the K Score model given in the question, with the Z Score model, followed by detailed discussion of the latter model including its history and its use. Again, candidates should ensure the question is read carefully, and do not try to simply repeat pre-learnt information.

Part (c) focused on the operational and financial gearing including a discussion on whether these two ratios are the most important indicators of corporate failure. Candidates were also expected to calculate both of the above ratios for the two companies in the scenario. It was promising that most candidates identified that two calculations were required for each company, followed by some discussion. However, the examining team were very surprised that most students did not know how to calculate operational gearing, and many could not calculate financial gearing despite the formula for the latter being given in the question. Both of these ratios are crucially important when considering corporate failure, and as such, a competent management accountant should ensure that they understand the concepts, can calculate the ratios and interpret the answers. This examination is Advanced Performance Management and therefore candidates would probably find it very beneficial to ensure that they are familiar with the concepts of the underpinning Performance Management examination.

### **Question Three**

This question was based on a company that manufactured high quality sports clothing sold to retailers and is considering implementing a business process re-engineering (BPR) proposal to reduce costs. Overall, candidates who specifically answered what the requirements asked for scored well. The examining team would again like to draw attention to the fact that the requirements are specific, and those candidates who chose to answer a 'different question' did not score well.

Part (a) asked for an evaluation on how business process re-engineering (BPR) could improve the company's performance in relation to the customers' two key demands. The key to answering this question was to focus on the two key demands of the customers which were to have lower prices to pass on to the consumers and for suppliers to meet performance targets relating to lead times and quality. Candidates who then discussed the implementation of the BPR proposal in relation to the above key demands scored well. Unfortunately, some candidates explained the concept of BPR, which was awarded some credit, but then went on to discuss generic advantages and disadvantages of the BPR process with little or no reference to the scenario or the stated key demands.

Part (b) required candidates to provide advice on the development of the company's information systems that would be required for the BPR proposal. This section was only worth 6 marks, and candidates were

awarded credit for a range of sensible comments relating to the system e.g. database needs to be accessible by all, real-time update of information, fast and reliable internet services etc. A few good points, well explained and related to the scenario easily scored full marks here. Some candidates discussed characteristics of good information, which had some merit here, but not much. A common theme on the performance of weaker candidates at this diet was the discussion of models and characteristics without application to the scenario and/or without specifically relating to the requirement – this question was about *information systems* and its application to the BPR proposal, not just characteristics of information.

Part (c) was a relatively straight-forward question relating to how the high ethical standards of the company may impact on the BPR proposal and the performance of the business. For some candidates, there appeared to be some confusion regarding the difference between ethical considerations, such as the impact on the employees' welfare and potential pollution of long distance transportation, and operational considerations, such as reorganisation costs and logistics. However, it was very clear that candidates who structured their answer well also performed well on this question. Again, it is advised that all candidates ensure that they adequately attempt all parts of the requirement. Many candidates correctly discussed ethical considerations as stated above, and then developed their points by discussing how this could impact the BPR proposal, for example, negative publicity can affect sales, or by increasing costs to try to counter the effects on welfare or pollution. This was pleasing to see, and is a good approach to use on all questions.