Examiner's report
P5 Advanced Performance Management
December 2013

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

Firstly, the examining team are concerned by a general downward trend in the quality of answers that has been observed over the last 5 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%. However, in addition, at this diet, it was clear that many candidates did not have clear definitions of some of the jargon that is present at the P5 level, e.g. lean systems in question 3 and myopia, gaming and ossification in question 2.

Nevertheless, 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. A common illustration of this fault was present in many question 1 answers where candidates ignored the requirement to comment on the 'suggested KPIs' and instead presented an unhelpfully long list of new KPIs. Similarly, in question 2, the main focus of part (a) was the 'current' dashboard and not a redesigned (and often greatly extended) one.

This last point again illustrates that well-worn refrain from examiners to 'read the requirement'. Most candidates at this diet performed better in one notable way in having grasped that an evaluation of a performance system is not an evaluation of performance. For example, in question 1 (ii)-(iii) and question 2 (a), there were many fewer examples of evaluating the performance of the company and many more of evaluating the performance measurement systems of the company, which was what was required by the question. However, there are still a minority who persist in such errors despite our best efforts in past examiners' reports and articles to illustrate these faults. (See examiner's article – 'Reading the question requirements at paper P5')

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 unfortunately, there was much evidence of poor time management. This was evident where about two-thirds of a candidate's script was taken up with the answer to question 1, which was worth only 50% of the marks. Future candidates should use the mark allocation as a guide to how much to write on a particular topic and practice past paper questions under timed conditions in order to become familiar with this discipline.

Specific Comments

Question One

This 50-mark question was based on an international consumer durables manufacturer, Lopten, which was setting up operations in the market of Beeland. The question began by requiring a calculation of a few basic key performance indicators (KPIs). Having ensured that candidates had a grasp on the proposed performance measuring system, the question then required candidates to consider these KPIs in the context of first, the external business environment for Lopten and then second, in their appropriateness given the critical success factors (CSFs) chosen by Lopten. Then, these KPIs had to be evaluated for their usefulness in planning as opposed to controlling Lopten's business. Finally, an evaluation by a gap analysis of two possible marketing strategies was required.

In part (i) for 11 marks, most candidates performed well. The calculations requested were simple and should (and did) present an opportunity to score some easy, early marks. The main weaknesses shown in this work were in the basic profit calculations and the margin of safety calculation. For such a basic set of calculations, it was disappointing that more candidates did not take the opportunity to score all 11 marks. A relatively common error which appeared here and in part (v) of this question was the treatment of fixed costs as volume related. Future candidates should be aware that breakeven and the associated analysis is something that they will be considered to be expert in by the time they reach P5.

Part (ii) of the question, worth 11 marks, required the use of PEST analysis to identify issues in the external business environment and then an evaluation of how the suggested KPIs addressed those issues identified. Again, this question part was generally well done. Most candidates identified a number of issues in the external environment using PEST (a P3 model) but were notably weaker in the application of it to the KPIs suggested. Two issues became apparent in marking: firstly, a minority of candidates did not use the PEST model and so were only given some credit as the question was about application of *this* model and; secondly, many candidates discussed their own set of KPIs ignoring the ones under consideration by the board. The second fault was particularly notable in answers which offered lists of new indicators with scant justification of their relevance and their impact on the proposed KPI set to be used by Lopten. (This illustrates a fault that accountants are often accused of which is *ignoring* their clients' questions when they think they have another solution. I would suggest that in order to get a client/employer to listen to good advice, an accountant must first explain why the client's own solution is not the best one! This question was partly a test of the ability to provide that explanation.)

Part (iii) for 10 marks requested an evaluation of the appropriateness of the suggested KPIs in the light of the stated CSFs at Lopten. This part was mostly well done. However, as in part (ii), candidates had a tendency to ignore the suggested KPIs and produce lists of new KPIs to address the issues which were not justified in context. There was also a tendency to discuss problems with the CSFs rather than the KPIs which was not requested by the question. For example, a suitable response to the concept of 'acceptable risk' was to look at how it could be *measured* within the existing KPIs rather than just comment that the target level of acceptable risk was not clearly specified in the scenario.

In part (iv) for 5 marks, candidates often drifted away from the question requirement which was an assessment of the extent to which the suggested KPIs could be used for planning rather than controlling the business. The purpose of the question was to offer candidates the chance to show that they appreciated the difference in these activities. Sadly, this question was poorly done with answers discussing control activities to the exclusion of planning. Candidates should not be afraid to say that there is poor coverage in an existing system provided that

this opinion is justified in their answer. Many candidates seem to think incorrectly that setting and monitoring of targets is a planning activity. The distinctions were more that suitable KPIs had to be forward-looking and focussed on the external environment of Lopten. Again, in this part, there was insufficient focus on the suggested KPI list.

Part (v) considered issues around possible marketing strategies for Lopten. This part was worth 9 marks for an evaluation of the performance gap. This part was either done well or badly with little in between. Where a candidate addressed the fixed costs correctly and realised that the target profit was given as the profit in *two* years' time thereby, producing calculations of the gap for the two plans then they tended to easily score above pass marks. Therefore, there were two common and fundamental errors in the calculations. Firstly, already noted above, was the failure to recognise the 'fixed' costs in the estimate of future profits, e.g. by taking the previously calculated profit per product and multiplying it by 1.04^2 in Plan A. Secondly, many candidates attempted to answer the question by doing only a calculation of profit in one years' time or else not doing any calculation work at all. (For those candidates that cannot see how poor such an answer is, we would suggest that you imagine the response of your boss when, having requested a forecast for next year's profit, you come to the meeting with either a forecast of the first 6 month's profit only or else a statement that things look okay based on the fact that you made a profit last year.) Such answers scored some marks for the discussion of the assumptions in the strategies but did not tend to collect many marks.

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 can learn from this question the need to answer the question asked and in particular, to be wary of believing that lists of every performance metric that can be remembered are helpful. At P5, markers are interested in *justifications* of each and every indicator under consideration in the question requirement.

Section B

Question Two
This 25-mark question covered the performance and management problems faced by Graviton, a fast-fashion, clothing manufacturer. The question addressed firstly, the use of the Lynch and Cross Performance Pyramid to evaluate the performance dashboard of Graviton (performance measurement) and then, assess some performance management problems at the business.

This was the most popular of the section B questions with most candidates knowing the headings of the model in question though there was weaker knowledge of the jargon terms in part b). It should be noted that the question was about application of this knowledge and so simply providing book-learned definitions of terms scored only a few marks.

Part (a) was worth 15 and involved applying Lynch and Cross's Performance Pyramid to the existing system of performance measurement described in the question. Although many candidates showed a clear understanding of the terms of the pyramid, many were unable to apply these to the dashboard at Graviton. As noted in Question 1 of this paper, too many candidates simply listed new indicators *without justification* to the circumstances at Graviton. Those that scored well took each heading within the pyramid and discussed a) how it linked to the aim of the business (maximising shareholder wealth by focussing production on changing trends through maintained flexibility and close control of the supply chain) and; b) evaluated how the existing dashboard addressed these

issues. For example, a valuable (but often ignored) connection could be made between flexibility in a fashion business and the time to market indicator.

Part (b) for 10 marks then required that the candidate take three buzzwords (myopia, gaming and ossification) often used in management accounting and assess their applicability to Graviton by identifying how problems at Graviton matched these concepts and then suggesting management solutions to them. Many candidates could not describe the terms (especially ossification) which indicates a lack of knowledge of the subject. However, most candidates did score some marks for suggesting suitable, justified solutions to the problems discussed even if they had not been able to state clearly which of the buzzwords was being addressed. (One detailed point of note on the suggested solutions is that these need to be *justified,* for example, a minority of candidates simply threw in a suggestion to use EVA™ with no explanation at this point.) A successful structure for an answer to this part was to define the buzzword then show how it related to a particular issue at Graviton and finally, suggest a solution to the issue.

Future candidates should note that explanation and appropriate application of jargon (rather than merely bandying those terms) will often feature in P5 as the valuable accountant is one who can demystify the subject.

Question Three
This 25-mark question was based on a chain of hospitals, Quark Healthcare. The scenario concerned the introduction of an RFID tagging system on high-value items of inventory and equipment. Candidates were required to consider the new systems impact on performance management generally then whether this impact made the operations leaner and finally, how the new system was affected by and would affect the staff. Part a) was typically answered reasonably well, however, parts b) and c) were usually poorly answered.

Part (a) for 12 marks looked at the overall impact of the new system. The scenario listed a number of areas of concern for the CFO of Quark and those candidates that used this hint tended to provide more complete and better structured answers. Most candidates did well in identifying the control benefits of the system but in not addressing the CFO's concerns often found that they ran out of ideas for further comment to reach the 12 marks available. Very few chose to comment on the nature of the information supplied and the changes to performance reporting and as a result, there were many passing answers to this part but few that scored highly.

Part (b) for 7 marks required candidates to demonstrate their understanding of the 'lean' concept by applying it to the effect of the new information system. Few candidates had a clear idea of the definition of 'lean' in this context though most realised that it related to waste reduction/efficiency/accuracy. Most candidates scored some marks for their illustrations from the scenario of how the new system created these benefits.(Candidates should note that they did not require to mention the 5S's in order to score full marks here, though it may have been useful in structuring an answer.)

Part (c) for 6 marks concerned the staff at the hospitals. The rigid hierarchy of the staff and previous information system problems were described in the scenario and those that made use of this as illustration of their general points scored well. The question asked for the influence that staff attitude would have on design and implementation and better candidates used these two phases (design and implementation) to discuss their answer. The final part of the requirement asked about the impact on responsibility and accountability and, as in previous diets, candidates only displayed a very vague grasp of what these terms might mean in the context of the RFID information system.

Future candidates should use the suggestions of the topics in the question scenario as these reflect the needs of the person to whom their answer is directed.

Question Four

This 25-mark question was based on the use of league tables in the public sector. A method of scoring police forces in a country was described in detail so that the measurement aspects could be discussed then the general use of such tables along with their implications in employee management were required to be considered. This topic had been included in a recent technical article and many candidates demonstrated that they had grasped the concepts of the use of league tables but performance on the measurement aspects of the scoring the forces was weaker.

Part (a) for 14 marks required an evaluation of the measurement of the forces performance through the Force Score in meeting the aims and goals of the government. This required understanding the detailed method of calculation given in the scenario and then examining whether this would indeed measure the achievement of these objectives. Candidates did well when they structured their answer by taking firstly, the aims of value for money and community security then the four detailed goals and examined how the four variables in the force score would relate to these and then whether the formula weighted these appropriately. This again emphasises the helpfulness in taking a logical approach to question answering. Unfortunately, a minority of candidates discussed the use of league tables in this part although the requirement focusses on the force score. These candidates should have read the whole question requirement and they would have realised that this was subject of part (b).

Part (b) for 11 marks was split into two parts firstly, a general discussion of the merits of league tables which was well done followed by specific concerns on their use on these police forces. Again, it was worth noting that the scenario hinted at the specific areas to consider though many candidates chose only to address the staff issues while leaving unscored the marks on the comparable usefulness of tables in measuring schools and police forces.

Conclusion

In conclusion, the main messages from this paper for future candidates are:
- Learn the models and jargon
- Practice application of this knowledge in scenario contexts
- Answer the question requirement (not your own version)
- Structure answers by using the hints from the user of your answer in the question requirement/scenario
- Justify your suggestions for improvement – don't just state them