

Examiner's report

P5 Advanced Performance Management

March 2018

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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 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 exam.

We would strongly advise that candidates use the examiner's reports and approach articles to ensure that they have the right overall attitude to P5, 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 (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. However, they are (usually) wrong to assume that this alone will provide them with a passing answer at P5 which is about application and evaluation in a business scenario.

Therefore, the first step to passing P5 is to have a good grasp of the basic knowledge. However, at this diet, a lack of such knowledge was particularly clear in: 1) question 1(i), key performance indicators, question 1(iv) zero-based budgeting and question 3) value-based management.

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 question 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 marking team that those candidates that had grasped the need for this went on to pass the examination. For example, see Question 1(i), which provided many illustrations of answers that explained the conceptual framework but then failed to apply it to the scenario.

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). See for example, question 1(ii).

Finally, and critically, in order to pass P5, 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 comments on question 1 (iii) for illustration.

Specific Comments

Question One

This question required the candidates to consider issues of performance measurement and budgeting at the waste management department of a local government body.

Part (i) required an explanation of how to achieve the cascade down of overall objectives through critical success factors (CSFs) to key performance indicators (KPIs) at the waste management department. This part was poorly done with many candidates unable to grasp that the aims given in the scenario represented the mission and CSFs of first, the overall local government and then, the CSFs, in response, for the department. Answers often showed a lack of basic knowledge of what CSFs and KPIs are. Many assumed incorrectly that the waste management department's aims were their KPIs. Further, candidates often suggested new KPIs which were in fact not KPIs but targets. This confusion of the definitions of basic terms used in P5 is troubling to the examination team. Finally, many candidates failed to use the detailed information in the scenario to illustrate their answer and so only scored a few general explanation marks out of the 10 available.

Part (ii) required an evaluation of the current performance dashboard in measuring the achievement of the local government's and waste management department's aims. This was a basic test of the candidates' ability to interpret a dashboard and link it to the strategy of an organisation and was generally done well. There were a number of candidates who did not respond to the question asked and instead, evaluated the performance of the company (rather than the dashboard) or else failed to link the dashboard to the aims.

Future candidates must respond to the particular requirement of the examination question in order to focus their answer in a valuable way. They should practice past questions in order to improve this skill.

Part (iii) required the candidates to benchmark the waste management department against three other waste management organisations. Performance in this part was weak. Generally, there was poor connection between a candidate's opinion and supporting quantitative evidence. As has been noted in previous diets, many candidates do not realise that offering analysis that states that one figure is higher than another is insufficient. Good answers indicate the significance of that difference in the context of the scenario. Often, there was a failure to link the discussion of performance to the aims of the department. Also, many candidates did not realise that in order to compare organisations of different sizes that they should use ratios (e.g. of costs per tonne of waste). Finally, many candidates did not consider the practical implications of what was being measured and this led to conclusions such as 'The department is performing better in frequency of waste collection as it does this every 14 rather than 7 days'.

Part (iv) required an explanation of zero-based budgeting compared to incremental budgeting and then, an evaluation of whether this method suited a particular project at the waste management department. Those candidates that had the basic knowledge of zero-based budgeting found this question straight-forward. However, many candidates clearly had little grasp of the method as demonstrated by the large number of answers that failed to mention decision packages in their description. This led a number of candidates to waste their precious time in the examination writing lengthy but irrelevant answers about incremental budgeting when the focus of the question was on zero-based budgeting.

As is now common at P5, 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.

Question Two

This question dealt with issues of performance measurement and management at a footwear manufacturer. This was the most popular question chosen in Section B.

Part (a) of the question asked for an explanation of limitations of the information being used by the manufacturer and an evaluation of how a unified corporate database could overcome these limitations. This part was generally well done. Candidates identified the missing areas of information needed by the company and then connected these to the benefits of a unified corporate database.

Part (b) of the question required candidates to advise on performance measurement and management problems associated with a joint venture being considered with another manufacturer. Candidate performance on this part was also generally good with many answers effectively describing the differences between the two organisations and how this would impact on the joint venture.

Question Three

Question 3 examined the introduction of value-based management (VBM) at a plant hire business.

Part (a) required an evaluation of the appropriateness of VBM for the company. This part was poorly answered reflecting a poor understanding of the VBM method. Many candidates provided much irrelevant information in an attempt to cover this lack of knowledge.

Part (b) required an explanation of the changes to performance measurement and management required by the move to VBM. As for part (a), this part was poorly answered reflecting a poor understanding of the VBM method.

Part (c) of the question required a calculation and short conclusion on economic value added as a performance metric at the company. Candidates' performance in this part was often good. However, a significant minority committed simple errors where they had identified a suitable adjustment to make to profit or capital employed but then added/subtracted it when it should have been subtracted/added. This is a well-worn area for examination at P5 and so it seems that these simple errors may result from a failure to do practice questions before the examination.

This question illustrates the danger of question spotting or not studying the full P5 syllabus. The fact that candidates were choosing to do this question aware of the fact that they did not understand the basic technical background to more than half of the question illustrates their lack of confidence in the topics in the other questions on offer.

Question Four

This question considered issues of transfer pricing policy and reward schemes at a listed food manufacturer.

Part (a) required a candidate to advise the manufacturer on its transfer pricing policy and evaluate one specific suggestion. Answers to this part were reasonable though there were a number that demonstrated a poor grasp of the possible policies for a transfer price and the implications of each policy. Relatively few candidates developed an analysis of what a “full cost +15%” transfer price might mean with regard to implications for the buying division and the consequent purchasing of the inefficiencies by the selling division.

Part (b) required an evaluation of two reward schemes at the company and was mostly answered fairly well with good answers often providing a clear contrast as to the schemes’ ability to align staff to the organisation’s objectives (short and long term) and the impact of staff’s risk appetites.

Candidates did, however, often omit to discuss the link between the staff’s behaviour and the share price which can often be tenuous.