

# Examiner's report

## P5 Advanced Performance Management

### September 2015



#### 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.

The examining team continue to be concerned by the quality of answers that has been observed which is consistent with that of the last nine 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 "evaluated" and "assessed" rather than described. The difference is fundamental and crucial as an analysis involves a study of applicability rather than a description. To offer an example, the candidate who answers a question focused on whether an organisation should introduce beyond budgeting by offering only a description of beyond budgeting is demonstrating knowledge of a technique but is not answering the question. Evaluation involves asking questions such as: how would this technique work in this company? What might the effect(s) of adopting it be? Where might the problems lie? How might it help? Analysis and evaluation in this manner are a mind-set that is crucial for a successful candidate at P5. Such an approach is straightforward to adopt when considering past papers and should be the basis for any revision strategy. Knowledge of any technique – be it beyond budgeting, balanced scorecard, etc. – 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, exemplified by a consideration of the questions above, which will make for a successful response at P5.

To be specific about the analysis/assessment/evaluation point in the previous paragraph, 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. This was evidenced when candidates failed to attempt standard ratio calculations and could not demonstrate an understanding of the difference between a revenue centre and a profit centre.

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.

This issue leads directly to the well-worn 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). There was also a continuing disregard for the suggestions contained within the scenario. Candidates should remember that the scenario is intended to mimic real life, in so far as is possible in the examination context.

### Question One

This 50-mark question was based around a market leader in television broadcasting. Firstly, the candidates were required to assess the organisation's performance report for its fitness for purpose. They were then asked to benchmark the organisation against two rival companies and to evaluate the sources of information used in that process. Finally, they were asked to assess the organisation's performance from the perspective of the industry regulator and to consider how the organisation might manage their performance in the light of the regulator's aims.

Part (i) required an assessment of the performance report to consider if it was fit for purpose. This was reasonably well done, however, this is the basis of performance management – are we measuring the right things – and as such it is a fundamental question for a P5 candidate. Therefore a discussion of some weaknesses in answers is warranted.

- A significant minority of candidates continue to respond to this type of question with an assessment of the performance of the company. It has been noted in numerous examination reports and in examiner's articles about P5 that the assessment of the report is not the same as the assessment of the company's performance. Those candidates who did this were not penalised in marks but in the time wasted in producing such an answer.
- Many candidates did not recognise the manner in which a company's vision is expressed in aims which should then be articulated into measurable outcomes. This essential hierarchy was often ignored and many candidates were content to highlight that a specific aim was being measured and offer nothing by way of further analysis. Understanding how performance management sits within a hierarchy is crucial to an understanding of how to answer a question at P5 level. In commenting on the report's fitness for purpose it is expected that candidates should highlight aspects that were not included but may be useful. It is key, however, that these suggestions link to the organisation's vision and aims. There is no point introducing these aspects without any justification for their inclusion. “
- This type of question required a structured response in terms of addressing the vision and aims of the organisation. This would demonstrate that the focus is not on the measurement of the company but what the company was measuring to achieve its vision and aims. A response which adopts this approach would structure the answer as such: “Are aims achieving the company vision?” followed by a discussion in this area and then a further heading of something like “Measuring achievement of aims?” which should be, again, followed by a relevant discussion. Such a structure makes it clear that the question is being addressed and also highlights a professional approach to Report writing. It is an example of good practice that could be copied by other candidates answering a similar type of question. See Q1 from June 2014 as an example of this type of question.

Part (ii) of the question, required the candidates to benchmark the organisation against two rival companies and asked for comments on the exercise and suggestions for further work. This question was generally answered quite badly as candidates seemed unclear as to what benchmarking is and what the process does and does not tell us.

- Many candidates restricted their response to some basic figure work and did not comment on the benchmarking exercise or the method of benchmarking used. Commenting on the exercise itself was a key component of the question.

- Many candidates also did not consider the area of further work at all, which was very disappointing and clearly limited the amount of marks that could be awarded. Again, this was a clear requirement of the question and is perhaps further evidence that candidates were unclear about the process of benchmarking itself or that the question has not been read carefully

Part (iii) asked for an evaluation of the sources of information used in the benchmarking exercise. Most candidates achieved a few marks here by commenting on the use of Annual Reports and the reliability of data. However, many candidates ignored the other sources of data that were used. Also, several candidates failed to read the requirements of the question and failed to comment on the sources used and instead commented on sources that might have been used to produce other figures. This reinforces how it is essential that the requirements are read carefully.

In part (iv) candidates were asked to assess the organisation's performance from the industry regulator's perspective and consider how the organisation's performance might be managed given the regulator's aims. This was not well answered.

- Many candidates attempted some figure work, in the form of percentages from the information given then a brief analysis was offered of performance in terms of – “this figure has gone up, this one down etc.” Such responses scored some marks for the relevant and correct figure work but an analysis of performance is only relevant if it was addressed in light of the regulator's aims which was what the requirement was asking for.. In many cases, the percentages calculated were incorrect. This is basic mathematical work which offers straightforward calculation marks which every candidate at this level should be achieving.
- Good answers used an appropriate structure like addressing each of the regulator's aims in turn.

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. It may be worth noting that introductions of the form ‘I have addressed the issues relating to performance management of the organisation’ are inadequate. A more substantive description of the contents of the report is required.

## Section B

### Question Two

This 25-mark question covered problems in budgeting in the context of an electronics component manufacturer and asked candidates to also evaluate the effect on the organisation of a move to beyond budgeting.

Part (a) involved evaluating the weaknesses of the current budgeting system and a consideration of whether it was suitable for the environment that the organisation operated in.

Though, this was generally well done, an area where candidates could have improved their answers would have been in further developing their responses and ensuring that they related their answers to the scenario. An example of this would be saying something like that the current budgeting process was demotivating but without.” any relation to the scenario, a response such as this is giving no evidence of evaluation and would not score a mark. A response which takes information from the scenario to illustrate why it was demotivating, for example that the process was unnecessarily lengthy and that managerial advice could be ignored by the board and this would be likely to lead to demotivated managers is a more merit worthy response. Future candidates should work on developing the points they are making to gain more credit.



Part (b) required the candidates to evaluate the impact on the organisation of moving to beyond budgeting. This part was not so well done as most candidates tended to offer a solid explanation of beyond budgeting but often failed to relate it to the organisation overall. Such a response received a few marks but not enough to pass this part of the question as there was no consideration given to how it would impact the business. An example here would be to say that beyond budgeting encourages managers to work together for the good of the company and to share knowledge and this would have a positive effect on an organisation which operates in the electronics industry as product innovation is key. This mindset of applying the theory to the scenario is key for P5 and will enable candidates to better answer the question. A useful past question to look at here is Q4 from June 2014.

### **Question Three**

This 25-mark question was based on the application of the DMAIC methodology at a furniture manufacturing business with a consideration of the effects upon the organisation's information systems. Responses to part a), which asked for a consideration of DMAIC methodology, were mixed and responses to part b) about the effect upon information systems were, generally speaking, quite poor.

Part (a) asked for specific advice about how a six sigma project could be implemented using DMAIC methodology. A key focus to the question was the use of DMAIC methodology and it was clear that a few candidates had little knowledge about how this methodology worked. Given that the use of the methodology was being tested, knowledge of it was essential and candidates who could not demonstrate this scored very few, if any, marks.

An explanation of the DMAIC methodology scored a few marks though the majority of credit in this question was to be gained from applying the methodology to the scenario. One of the main shortcomings in many responses to this question was a failure to recognise properly how to use the data given with each part of the methodology – Define, Measure, Analyse, Improve, Control and actually how all this connected to customer requirements and expectations. Answers were not provided in sufficient depth.

Part b) (i) asked for an evaluation of the impact on the organisation's information requirements of the need to identify and improve on the level of customer returns. This part was badly done overall as many candidates did not read the requirement of the question and offered responses which considered the effect on the organisation's performance. Such responses scored few marks.

The need to recognise the effect upon information requirements is fundamental with the introduction of a six sigma project and a DMAIC methodology. The data that has to be captured is significant and it is important for a candidate sitting P5 to recognise the effects of the introduction of a major development such as this. This is part of the overall process of analysis and evaluation of the adoption of any technique and should be part of a revision mind-set, perhaps in a self-prompt sense to consider questions such as – if this is introduced, what are the overall effects on information, personnel, etc.

Part b) (ii) asked for an evaluation of the information requirements that would arise from the proposed re-designation of parts of the organisation from profit centres to revenue centres. Few candidates attempted this question in a meaningful way and a number failed to differentiate between the two types of responsibility centre.

It is clear that a valuable lesson which candidates can take forward is that they should always read the question and come prepared to consider the effects on a company's systems of the introduction of something new.

### **Question Four**

This 25-mark question was about a consideration of corporate failure in relation to a clothing manufacturer. This question proved to be the least popular with candidates.

Part (a) required an assessment, though the use of a model such as Argenti, of factors which might indicate if the company was at risk of corporate failure. Candidates that had a good knowledge of the Argenti model and were able to apply it scored well and demonstrated a clear understanding of the differences in aspects such as defects, mistakes and symptoms. However, some candidates did not have anything more than a basic understanding of the Argenti model and so whereas a broad analysis on the company's risk of imminent corporate failure would score some marks, the question requirement was specific in its instruction that a model such as Argenti should be used.

This lack of understanding of the Argenti model causes concern for the marking team. It is a fundamental tool of P5 and candidates are expected to be aware of specific models when asked and to structure their answers accordingly. As indicated previously, the essence of P5 is the application and evaluation of theoretical techniques and tools to a practical scenario and a thorough understanding of the techniques and tools is required before a genuine demonstration of evaluative skills can be undertaken.

Part (b) required a quantitative evaluation of the company's risk of corporate failure using measures preferred by the government of the country where the business was based. This question was quite badly done in general for several reasons:

- Candidates seemed reluctant to use the measures prescribed by the government even though those measures were specifically highlighted.
- Candidates did not undertake much figure work in this part of the question despite it being a clear requirement of the question. Many responses contained quite bland commentary and did not undertake the specifics of the exercise as requested.
- Responses often highlighted little by way of analysis and tended to repeat observations that were present in the question – an example would be that candidates mentioned the company had taken on more debt but then did not consider the potential effects of this.

## Conclusion

In conclusion, the main messages for future candidates are:

- Answer the question requirement
- Understand the main theoretical models etc.
- When considering a technique or model, consider some of the issues, 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.