
Answers

1(a) BRIEFING NOTE

To: Manuel Sanchez - CEO, Valmine

From: Head of Finance

Subject: Proposed 2022 Integrated Report for Valmine

The International <IR> framework provides indicative **content elements** to support organisations in establishing an integrated report, so Valmine should take note of this guidance when establishing its report for 2022.

The **content elements** should ideally be linked to each other, and the framework identifies eight categories of content element that should be included within an integrated report. Valmine's proposed content for its 2022 integrated report contains similar categories, but I have compared each of the categories in the framework below to identify similarities and potential gaps for Valmine to consider.

1) Organisational overview and external environment

Section 1 of the Valmine report appears to provide similar information on why the company exists and how it operates in terms of its values and behaviours. This would include the Valmine purpose statement and its three key values and should provide further explanation on each of these.

Valmine should include some further information on what is happening in the external environment and how that may influence Valmine in future, for example, the steel industry is assessing more environmentally friendly methods of production (i.e. hydrogen-based) which will require higher quality iron, similar to that found in Vetland. In addition, the current market price of iron-ore is at an all-time high of \$230 per tonne, which is again positive for Valmine, and its ability to generate profits.

Valmine's strategy should be moved to a separate section as per the framework guidance.

2) Governance

Section 4 of the Valmine report appears to provide appropriate information on how the organisation is governed, which has changed since 2018 given the move to becoming a listed company, so an understanding of the role played by the Vetland government, who are still the majority shareholder, would be beneficial for stakeholders within this section. According to the IR framework, risk should not be included in this section, but instead be part of a separate section.

3) Business Model

Section 3 of the Valmine report contains this section as Valmine need to clearly define and explain all aspects of its business model, so that stakeholders have a common understanding of what is a highly technical and complex business.

4) Risks and opportunities

The Valmine proposed content includes risk management under governance in section 4, so this should be a new additional section within Valmine's Integrated Report. This could include the two strategic issues being explored, but also the corresponding new opportunities that could be created for Valmine, i.e. additional mining of new minerals to supply the electric car industry. Valmine should be mindful when reporting on opportunities that commercial confidentiality is important and therefore communication within the report will need to be appropriate for an external audience.

5) Strategy and resource allocation

Valmine has included this in section 1, but the IR framework would suggest an additional section in the Valmine report. This section should clearly articulate the future strategy for Valmine and how they will resource that strategy for example, as per our discussions you have provided insight in to Valmine's strategy in your review of non-core mining activities in order to support further mining activities in Vetland.

6) Performance

Section 2 of the Valmine draft report contains the financial results, which is part of the performance of the organisation, but this should also include performance against its broader strategic objectives and include a range of both financial and non-financial performance measures. A section relating to performance would therefore provide a wider perspective for Valmine than purely its financial results.

7) Outlook

This section should highlight the challenges and uncertainties the organisation is likely to encounter in pursuing its strategy and the potential impact on how Valmine operates. Valmine could further include here information on the current global market for iron-ore, and its view on how future market conditions may change. The issues that Manuel has identified would again be appropriate here, so there may well be some duplication between certain sections of the report, i.e. the section on risks and opportunities.

8) Basis of preparation and presentation

This section should identify how the organisation determines the issues to include in the report. Currently Valmine has no such section, but this could be covered at the start of the report when describing the purpose and context of the report.

Summary

Valmine have two additional sections on environmental and social matters that are not explicitly covered in the <IR> guidance. Given the fact that Valmine is a mining company and environmental issues are inherent in how they do business, a specific section on this subject area would seem warranted. Social matters could be included

elsewhere in the report, indeed in several sections, but may also sit as a stand-alone section.

Overall, the proposed content for Valmine's 2022 integrated report is a good first attempt, as Valmine have provided a range of sections that should allow stakeholders access to more varied and relevant information on the organisation. The categories proposed by the <IR> framework are for guidance only and therefore Valmine can use this framework in order to improve their current and future versions of their integrated report. When the report is presented at the stakeholder forum in January 2023, it will be a great opportunity for Valmine to receive further feedback from their stakeholders, which can then inform future versions of this integrated report.

Marking scheme

Comparison of the Valmine draft integrated report to the International <IR> framework, particularly the suggested content elements contained within the framework – up to 1.5 marks for each of the eight content elements in the framework up to maximum of 10 marks. Marks are not to be awarded for students simply listing the eight content elements.

If students do not directly refer to the content elements in the <IR> framework but analyse Valmine's integrated report and make relevant comments in terms of its appropriateness – up to 1.5 marks can be awarded for any relevant points up to a maximum of 10 marks.

Up to 2 marks for providing an appropriate summary to the analysis.

Maximum of 10 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
Analysis skills in comparing the proposed content of the Valmine draft report with the International <IR> framework.	<p>The candidate has demonstrated poor or no analysis skills.</p> <p>The candidate has listed the content elements but failed to provide a suitable comparison between the Valmine draft report and the <IR> framework.</p>	<p>The candidate has demonstrated limited analysis skills.</p> <p>The candidate has provided some limited comparison between the Valmine draft report and the <IR> framework or has made points about the draft report's appropriateness without referring to the content elements in the <IR> framework.</p>	<p>The candidate has demonstrated good analysis skills.</p> <p>The candidate has made a good attempt at analysing the Valmine draft report with some comparison against the <IR> framework.</p>	<p>The candidate has demonstrated excellent analysis skills.</p> <p>The candidate has provided an excellent comparison of the Valmine draft report and the <IR> framework.</p>
	0	1	2	3

(b) REPORT

To: Manuel Sanchez
From: Head of Finance
Subject: Strategic issues facing Valmine
Date: 30th June 2022

Introduction

Valmine is currently facing two strategic issues. The first is the ability for Valmine to meet the increasing, and changing, global demand for iron ore, and the second is the proposed diversification into mining other minerals in the proposed collaboration with Tilson Plc.

The purpose of this report is to evaluate each of these issues.

i. Proposal to outsource the transport of Valmine's exports to a global shipping company

It is proposed that all non-core activities (i.e. activities not linked directly to mining or pellet production) are reviewed to identify possible efficiency and cost savings through adopting alternative arrangements. The first non-core activity to be considered is the outsourcing of Valmine's exports to a global shipping company. In this section of the report the potential benefits and problems of the proposal for Valmine will be covered.

Benefits

- **Cost savings** – Valmine currently rents space for its ten ships at Altura, a major port in Vetland, and rents facilities for the staff from the Shipping Division in Valmine. Additionally, given the age of the fleet, the ships require significant ongoing maintenance and repair work. All these costs would be saved if export requirements were outsourced.
- **No further capital investment required** – the current fleet is approaching the end of their 12-year life, and they would need to be replaced in the next 1 to 3 years, which would require significant capital investment for Valmine, when the priority would appear to be investment in further new mines. Similarly, the disposal of the Valmine fleet may provide a capital injection at some point soon.
- **Reduced risk** – Valmine has experienced several incidents in the last two years culminating in the accident one month ago, which resulted in the loss of one hundred containers of iron-ore at sea. By outsourcing Valmine is transferring this transportation risk to the global shipping company, who would be expected to operate more effective controls to avoid such accidents occurring.
- **Improved service to customers** – The recent accident resulted in a supply delay for a major customer. Moving to a larger and more experienced shipping company may reduce the likelihood of incidents and accidents and therefore improve the reliability of supply and the overall level of service to customers.
- **A more scalable shipping solution** – Valmine plans to grow further, due to the increased global demand for iron ore and potentially expanding into new markets,

i.e. cobalt production. The current fleet would not be sufficient to meet this demand and using a global shipping company should ensure that future export requirements can be met.

- **Time saving** – given Valmine’s future plans outsourcing should free up time for senior management to focus on other, more strategically important, areas of the business.
- **Future cobalt transportation** – the existing fleet may not be suitable to transport cobalt for the proposed collaboration with Tilson. This could be significant for Valmine as the Tilson collaboration would involve the transportation of mined cobalt from Vetland to Tilson’s suppliers, and a global shipping company should have the capacity and experience to manage this possible requirement.

Problems

- **Higher operational costs** – outsourcing to a shipping company may result in additional cost per journey, as Valmine will be paying external market rates for transport. Valmine has an ageing fleet that are now approaching the end of their life but it has operated this fleet for many years and therefore had the opportunity to develop an effective way to utilise their journeys, thereby ensuring that costs are managed. In addition, although the shipping company may charge competitive rates initially, these rates will be subject to change in future, which could result in higher transport costs for Valmine in the longer term.
- **Redundancies in Valmine Shipping division** – if Valmine outsource all its shipping, all employees of Valmine Shipping would either be made redundant or, reassigned to other parts of the company. The redundancies are likely to incur a significant financial cost given that the division has been operating for many years and some of the staff are likely to have long periods of service with Valmine. There could also be a negative impact on other employees within Valmine once they hear this news about a division closure.
- **Disruption during transition period** – Valmine is reliant on exporting its product on a regular basis, for example 40% of its 2021 production was exported to Ceeland, so any change in the way its product is shipped will cause a problem to Valmine, so the transitional period between appointing a global shipping company and the disposal of the Valmine fleet will need careful management.
- **Lack of control** – even though Valmine will have a contract with the new shipping company that will outline expected levels of service, it will no longer have operational control and will be reliant on the external company making judgements and decisions, which may not always be in the best interests of Valmine, especially when the company are servicing the interests of many clients.

Overall opinion

Valmine is a mining company and not a transportation company, and although it has successfully operated a small fleet of ships to move its product overseas, the recent accident and the old fleet mean significant capital investment will be required if the current setup was to continue. It would therefore appear to be a good opportunity to now outsource Valmine’s sea transportation requirement. A global shipping company

can provide more expertise and resources and should be better equipped to meet Valmine's increasing demand.

Marking scheme

Benefits – up to 2 marks for each appropriate benefit applied to Valmine – up to a maximum of 6 marks in total. Generic benefits of outsourcing may be awarded up to 1 mark.

Problems – up to 2 marks for each appropriate problem applied to Valmine – up to a maximum of 6 marks in total. Generic problems of outsourcing may be awarded up to 1 mark.

Opinion – up to 2 marks for a reasoned opinion.

Suggested points could include, but are not limited to the following as contained in the model answer above:

Benefits: cost savings, no further capital investment required, an improved service to customers, a more scale-able shipping solution.

Problems: higher operational costs, redundancies, disruption during transition period.

Maximum of 12 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
Evaluation skills in appraising the benefits and problems of the proposal for Valmine.	<p>The candidate has demonstrated poor or no evaluation skills.</p> <p>The candidate has failed to appraise appropriate benefits and problems of the proposal or offer a reasoned conclusion as to its appropriateness for Valmine.</p>	<p>The candidate has demonstrated limited evaluation skills.</p> <p>The candidate has appraised a limited number of benefits and problems of the proposal but with little application to Valmine.</p>	<p>The candidate has demonstrated good evaluation skills.</p> <p>The candidate has appraised a good selection of benefits and problems of the proposal and for Valmine.</p>	<p>The candidate has demonstrated excellent evaluation skills.</p> <p>The candidate has clearly appraised the potential benefits and problems of the proposal for Valmine and concluded on its appropriateness.</p>
	0	1	2	3

ii. Factors to consider before entering a collaboration agreement with Tilson

The second part of this report will consider the factors for Valmine to consider before entering a collaboration agreement with Tilson to directly supply cobalt for use in the production of electric cars.

Factors for Valmine to consider

Collaborative working between Valmine and Tilson would involve the two organisations working closely together. Valmine would diversify its product portfolio by mining cobalt in Vetland, and Tilson, would secure access to the raw materials required in the production of batteries for its electric cars. The proposed collaboration would involve Tilson providing financial support for Valmine in the research and development phase in Vetland, and once operational, Valmine would provide guaranteed product volumes and prices to Tilson's named suppliers for a five year period.

The points raised below are possible factors for Valmine to consider before working collaboratively with Tilson:

- **Government support** – although Valmine has strong relations with the Vetland government, given its history as a majority shareholder, the mining of new natural resources in Vetland will still require licences to be approved by the government before any collaboration with Tilson is formalised.
- **The mining process** – Valmine is very experienced in the mining of iron-ore, and although the process of mining will be similar, they have never before mined for cobalt so this may require further skills and expertise currently unavailable in Valmine. Additionally, although Vetland appears to have large amounts of natural resources, there is no guarantee that the cobalt resources required by Tilson will be available within Vetland.
- **Product diversification** – this arrangement would allow Valmine the opportunity to diversify their product range away from the current focus on iron ore. Although the iron-ore market is currently strong, the CEO recognises that this market can be volatile, and therefore having a broader product range could provide a more sustainable longer-term future for Valmine.
- **Funding** – the proposed collaboration would involve Tilson and Valmine providing equal funding to cover the costs of researching and exploring for cobalt in Vetland. Although Vetland is a country with large amount of natural resources, there is no guarantee that cobalt will be found or if it was found, the costs of extraction are as yet unknown. This could be a significant financial risk for Valmine (and Tilson).
- **Tilson contract** – an issue of the agreement with Tilson is that Valmine are tied into a supply contract for 5 years, which guarantees volumes and a fixed price. This may limit Valmine's ability to acquire additional customers and maximise prices during this contract period. Market prices for cobalt may increase significantly as demand for electric cars increases, and Valmine may therefore be restricted in terms of its capacity to take advantage of the market due to its contractual commitment to deliver to Tilson. Conversely it may be difficult to fulfil the Tilson contract with sufficient quantities of cobalt from Vetland, and in this situation would

Valmine be required to purchase cobalt from other companies in order to meet Tilson's minimum volumes.

- **Market diversification** – the current market for Valmine is the global steel industry, where it provides its iron ore pellets to steel producers, who then sell the finished steel product to various sectors. This collaborative partnership would allow Valmine to access a new industry, the car battery industry, which would provide a more diversified future market for their products.
- **Higher media profile** – given the environmental support for the electrification of the car industry, demand is set to significantly increase, and electric car manufacturers, like Tilson, will become more high profile in the media. If Valmine were to collaborate successfully with Tilson, this could similarly raise the external profile of Valmine, especially with other car manufacturers but also more generally with all organisations requiring mined materials.
- **Supports Valmines' purpose and values** – given that Tilson is involved with the production of electric cars, the collaboration will help support Valmine in fulfilling its purpose in “taking care of...the environment” and support one of its key values, respecting the planet.
- **Stakeholder support** – the benefits of this arrangement would be appealing to all key stakeholders at Valmine. For its institutional investor shareholders, this could be a positive sign for future growth following the 2018 listing and for the Vetland government this could not only grow their continued investment in Valmine, but also provide further economic opportunities due to the continuation and growth of the mining industry in Vetland.
- **A distraction from the core business** – there is a danger that Valmine and Manuel may become too distracted by this new opportunity with Tilson and lose focus on the core iron ore business. Valmine is also considering further investment and growth in the existing business, and this will need to be tightly managed, and opportunities such as Tilson, may end up diverting vital resources elsewhere.

Conclusion

This proposed collaboration agreement with Tilson appears to be a good opportunity for Valmine to broaden its product range and develop further markets for the minerals it mines. By partnering with Tilson, this will provide finance and risk sharing to develop the potential opportunity for mining new metals. It will also provide a guaranteed customer for five years once the mines are operational, thereby allowing Valmine to become an established supplier to the motor industry.

However, there is no guarantee that Valmine will receive the licence approval to mine in Vetland, and similarly that the required natural resources will be found and to the required quantities. These issues would need to be addressed before any collaboration with Tilson can be considered. The proposed agreement could also be restrictive for Valmine, as it will commit Valmine to provide guaranteed quantities for each of the five years of the contract and at a fixed price, which could significantly impact Valmine's ability to take advantage of rising market prices in future.

Marking scheme

Implication of proposed collaboration agreement for Valmine – up to 2 marks for each appropriate implication applied to Valmine – up to a maximum of 10 marks in total.

Suggested points could include, but are not limited to the following as contained in the model answer above:

- *Product diversification*
- *Market diversification*
- *Increased financial performance*
- *Higher media profile*
- *Stakeholder support*
- *A distraction from the core business*

Conclusion – up to 2 marks for an appropriate conclusion.

Maximum of 10 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Very well
Commercial acumen skills in identifying and understanding suitable factors to consider for Valmine before entering a collaboration agreement with Tilson.	<p>The candidate has demonstrated poor or no commercial acumen skills.</p> <p>The candidate has failed to identify suitable factors for Valmine to consider before entering a collaboration agreement with Tilson.</p>	<p>The candidate has demonstrated good commercial acumen skills.</p> <p>The candidate has identified some relevant points for Valmine to consider before entering a collaboration agreement with Tilson.</p>	<p>The candidate has demonstrated excellent commercial acumen skills.</p> <p>The candidate has made a range of excellent points, clearly demonstrating an understanding of the factors to consider for Valmine before entering a collaboration agreement with Tilson.</p>
	0	1	2

(c) EMAIL

To: Manuel Sanchez
From: Head of Finance
Subject: Disposal of the Valmine fleet of ships
Date: 30th June 2022

Hi Manuel,

If the board agree to the proposal to outsource exports to a shipping company, we will need to arrange for the disposal of the Valmine fleet of ships and I have provided a brief explanation below of the concept of fair value and then discussed on what basis a fair value could be applied to the Valmine fleet.

What is fair value?

Fair value is an accounting term that is used to value a transaction between market participants on a certain date. In relation to Valmine the fair value will be the price which would be received to sell one of its assets, i.e. a ship.

When measuring fair value all characteristics of the asset should be reflected in the valuation, and this would include the condition of the asset. Given that Valmine's ships generally have a 12-year expected life, five ships only have an estimated remaining life of one year and the remaining five ships have an estimated further three-year life. Therefore, the condition of these ships and their expected life will be factor when assessing the fair value.

The basis of fair value for the Valmine fleet

Fair value is also a market-based valuation, rather than an entity-based valuation, which means that it will be based on the expected use by participants within a market, rather than the expected use by a single specified entity. This will apply to Valmine as the potential purchasers may look at how they could continue to use the container ships, and indeed possibly extend the ships expected life where possible. The Valmine ships are designed to carry shipping containers, and therefore do not have any specific purpose for a particular entity.

Valmine could adopt two potential valuation techniques to estimate the price at which the asset could exit the entity in an orderly transaction. They could use a market approach, where the price could be generated from the marketplace, which for Valmine would be the market for pre-owned container ships. There may be an active marketplace where transactions take place on a regular basis, and this could be used to estimate a fair value for a single ship, or indeed for a purchase of multiple ships.

A second approach would be an income approach, whereby net future cash flows from the remaining expected life of the ship(s) could be discounted to a present value to determine a possible fair value. This approach could also be applied to income that

could be received if some or all the Valmine fleet were sold for scrap purposes.

A third approach could be based on cost, which is also referred to as a current replacement cost. This approach aims to reflect the amount that would be required to replace the service capacity of the fleet of ships, but with an adjustment for obsolescence. Therefore, Valmine would assess what the cost of equivalent ships would be if bought new and then adjust that figure to take obsolescence into account, i.e. the age of the ships and their remaining useful life.

I hope that I have identified some possible valuation techniques for further analysis by the Valmine staff.

If you have any further questions, please do not hesitate to contact me.

Regards
External Consultant

Marking scheme

Explanation of fair value – 1 mark for each relevant point in a discussion of fair value – up to a maximum of 2 marks.

Possible basis for the calculation of fair value for the Valmine fleet of ships – up to 3 marks for relevant point clearly applying the point back to Valmine – up to a maximum of 6 marks

Suggested valuation techniques could include the following:

- *Market approach*
- *Income approach*
- *Cost approach*

Maximum of 8 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Very well
Communication skills in clearly explaining fair value and how it may be applied to the Valmine fleet of ships.	<p>The candidate has demonstrated poor or no communication skills.</p> <p>The candidate has failed to clearly explain fair value and how it may be applied to the Valmine fleet.</p>	<p>The candidate has demonstrated good communication skills.</p> <p>The candidate has provided some level of explanation of fair value and how it may be applied to Valmine.</p>	<p>The candidate has demonstrated excellent communication skills.</p> <p>The candidate has provided a clear explanation of fair value and how it may be applied to Valmine.</p>
	0	1	2

2 (a) BRIEFING NOTE**To: Jane Khan****Re:** Assessment of BK mission and 2025 environmental goals**Date:** 30th June 2022

In preparation for our meeting, I will first assess the BK mission statement and 2025 environmental goals, and then recommend performance measures that will help BK employees to understand whether BK is succeeding in achieving their mission.

BK mission statement

BK's mission statement is "to be a financially viable and environmentally sustainable business that offers an excellent product and service".

This is a rather vague statement, which could be applied to many organisations, and is not sufficiently specific to BK. However, many mission statements are similarly quite vague and therefore it is not unusual to see an organisational mission statement like this.

It is aspirational in nature using words such as "viable", "sustainable" and "excellent" but does not say why the business really exists and certainly does not mention the type of business.

It infers certain standards of behaviour and values, by referring to being "financially viable", "environmentally sustainable" and having "excellent products and services", so these appear to be the three most important elements of the BK mission statement, which in theory should then be reflected in the company's culture and how it operates. It is a rather generic mission statement overall.

2025 environmental goals

These four goals are very clear and provide a clear timeline, i.e. 2025 for completion. They support and promote BK's environmental reputation, and it would be great for BK to fulfil all four goals. However, it may be difficult to achieve a net zero carbon position, and with zero waste and pollution, so it is difficult to understand how realistic these goals are and within the timescales.

BK will need to ensure that all its suppliers are working towards these environmental goals for them to be achieved and it is likely not realistic that BK can force suppliers to potentially change their working practices in this way.

On a positive note, the goals are very inspiring and motivational, especially for BK staff and certainly focuses the employees mind on the company's environmental targets.

Performance measures for BK mission statement

To identify five performance measures to help track whether BK is achieving its mission, we should use the three elements of the statement as identify appropriate measures under each element: financially viable, environmentally sustainable, and excellent product & service.

Financially viable:

- % revenue increase from previous year – an increase in annual revenue would be positive indication that BK is delivering higher sales and therefore contributing towards its financial viability;
- Gross/Net profit margin – this would indicate the percentage return based on direct clothing sales and for the company overall, and positive net margin would be required to support financial viability;
- % increase in garments sold – this is a relative measure that indicates whether sales volumes are increasing, and a positive figure would be a favourable leading indicator;

Environmentally sustainable (aligned with the 2025 goals):

BK has specifically produced four environmental goals which would support the BK mission to be environmentally sustainable. As the target timeline for these goals is 2025, a percentage reduction could be tracked for each of the goals, which would indicate positive progression towards the overall goals.

- % reduction in carbon footprint;
- % reduction in waste to landfill;
- % reduction in pollution from factory production;
- % plastic used in packaging.

Additionally, the absolute amounts for each of the first three goals could be measured, which would indicate how much further BK needs to progress towards their 2025 goals:

- CO2 emissions;
- Waste sent to landfill (kg);
- Air Quality;

Excellent product & service:

- Number of complaints – in the past 12 months BK has seen an increase in complaints regarding the quality of clothing items ordered from BK. This has never previously been an issue and therefore it is very important that BK resolve this quickly. A reduction in the number of complaints would show progress towards this part of the mission statement;
- % customer satisfaction from website feedback – traditionally this has been 95% or higher but given the quality issues over the past 12 months, there has been a decline to 82%. This indicates that BK is no delivering excellent products and services consistently, whereas an upward trend back to 95% and higher would support the mission statement. Additionally, if customers share their negative

experience on social media, this can cause an estimated 5% decline in sales, thereby also affecting BK's financial viability;

- % of returning customers – this would indicate over the longer term whether customers would return to BK and buy additional clothing items;
- Average annual sales per customer – this would indicate, on average, how much customers were spending each year, and if this figure increases then it implies that customers are happy with the product and service and are willing to buy more.

It is important that the measures are clear for employees to understand and reported on a regular basis so that a trend can be seen, and employees can then determine whether progress is being made or not.

Marking scheme

Critical assessment of BK's mission statement – 1 mark for each relevant point - up to a maximum of 3 marks.

Critical assessment of BK's 2025 environmental goals – 1 mark for each relevant point - up to a maximum of 5 marks.

Suggested performance measures – up to 1 mark for each relevant measure aligned to BK's mission statement – up to a maximum of 5 marks.

Maximum of 12 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
Scepticism skills in challenging the BK mission statement and environmental goals.	<p>The candidate has demonstrated poor or no scepticism skills.</p> <p>The candidate has failed to sufficiently challenge both the BK mission statement and the environmental goals and has not suggested appropriate performance measures.</p>	<p>The candidate has demonstrated limited scepticism skills.</p> <p>The candidate has somewhat challenged both the BK mission statement and the environmental goals and has suggested limited performance measures.</p>	<p>The candidate has demonstrated good scepticism skills.</p> <p>The candidate has provided some challenge to both the BK mission statement and the environmental goals and has suggested some appropriate performance measures.</p>	<p>The candidate has demonstrated excellent scepticism skills.</p> <p>The candidate has provided a comprehensive challenge to both the BK mission statement and the environmental goals and has suggested a balanced and appropriate range of performance measures.</p>
	0	1	2	3

(b) REPORT

To: Jane Khan, CEO, Bam-Khan

From: Financial Controller

Subject: How a cloud-based procurement system could be beneficial for BK and its suppliers

Date: 30th June 2022

Introduction

BK has established good relationships with a small group of suppliers in Eastville and Southdown, which has primarily operated with Jane, as owner of BK, communicating directly with the owners of the supplying businesses, through regular visits and via email.

Given the environmental goals of BK, where overseas travel is not encouraged, and the fact that Andrew Cox has taken on responsibility for managing BK's suppliers, BK would now like to consider how a cloud-based procurement system may allow BK and its suppliers to trade more efficiently.

What is cloud technology?

This is technology that enables users to access, update and store data and programs over the internet. A cloud-based procurement system could therefore provide BK with the opportunity to communicate with suppliers by hosting BK data and systems on the internet, through a private cloud, and allowing levels of access to named supplier contacts to view, edit and update the data. This online system could provide all relevant information and documentation between BK and its suppliers, for example information on orders, contracts, product designs, quality reports, and invoices.

Benefits to BK

- **Supports BK's environmental goals** – BK would like to be net zero carbon by 2025, and therefore the regular overseas suppliers visit to Eastville and Southdown will be reduced or eliminated, as the main purpose of these visits is to discuss and place orders with suppliers, and the new technology will enable this to be carried out without the need for a visit.
- **Cost savings** – the new technology will reduce the need for regular visits to Eastville and Southdown and therefore allow BK to save on travel related costs.
- **Reduced time and administration** – BK still operate a rather informal order system with suppliers, probably based on how Jane first ordered when she created BK. Orders, contracts, and disputes are emailed through to Jane as the central point, who will then need to liaise with other members of BK staff to follow up. Using a cloud-based system will speed up this process and reduce time.
- **Less reliance on Jane** – if systems can be accessed via the internet, suppliers do not need to channel all communication through Jane, which is beneficial for Jane

as the executive Chair of BK and given that she is now involved in other external environmental projects.

- **More regular orders** - currently BK orders from suppliers twice per year, so forecast demand figures need to be very accurate, whereas a cloud-based system may allow more regular orders, which can then be more accurate but also more relevant given market conditions.
- **Beneficial for Andrew** – although Jane has passed over responsibility for managing suppliers to Andrew, this is not happening in practice as suppliers and Jane continue to communicate through email. If BK were to operate a cloud-based system this would move Jane away from the suppliers, and allow Andrew, in his role as MD, to closely monitor and manage supplies using the information contained within the online procurement system.
- **Better information** – having all supplier order information in a single system will provide BK, and particularly Andrew, with access to supplier records and data that may help with future decision-making. Now this data appears to be solely with Jane based on her previously communications with each supplier.

Benefits to suppliers

- **Quicker decision-making from BK** – suppliers are more likely to receive a faster response from BK as a cloud-based system could direct enquires to the right people who can then respond accordingly.
- **More orders from BK** – using technology to have closer contact with BK, means that orders and communication become easier and this may result in additional orders, and therefore more business.
- **Less intrusion from BK** – BK's regular visits may be disruptive to suppliers and given that suppliers have successfully traded with BK for twelve years, there is no reason for continued visits unless there is a problem with supply.
- **Reduced time and administration** – this would speed up to order and contract process for the suppliers in a similar way to how it would for BK.

Conclusion

One driver for looking at how a cloud-based procurement system could be beneficial for BK in its relationship with its suppliers is the need to avoid making overseas visits. BK's environmental goal in relation to carbon would not support such activity. A second driver is the current reliance on Jane managing the supplier relationship, based on historic practice. This is not practical nor desired in future, so an alternative system of procurement is required.

Using cloud-based technology that can hold BK and supplier data will allow BK and suppliers to work in a different way than previously, but should provide benefits to both parties, as outlined above.

Marking scheme

A brief explanation of cloud technology – up to 2 marks.

Benefits for BK - 1 mark for each relevant benefit – up to a maximum of 6 marks.

Benefits to suppliers - 1 mark for each relevant benefit – up to a maximum of 4 marks

Conclusion – up to 1 mark for relevant conclusion

Maximum of 10 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Very well
Commercial acumen skills in identifying how the use of cloud-based technology may be beneficial for BK and its suppliers.	<p>The candidate has demonstrated poor or no commercial acumen skills.</p> <p>The candidate may have listed some generic benefits but has failed to identify how the use of cloud-based technology may be beneficial for BK or its suppliers.</p>	<p>The candidate has demonstrated good commercial acumen skills.</p> <p>The candidate has identified a limited number of benefits on how the use of cloud technology may be beneficial for BK and its suppliers.</p>	<p>The candidate has demonstrated excellent commercial acumen skills.</p> <p>The candidate has identified clear and relevant benefits on how the use of cloud technology may be beneficial for both BK and its suppliers.</p>
	0	1	2

(c) BRIEFING PAPER – CONFIDENTIAL

To: Jane Khan, CEO

From: Financial Controller

Subject: Appointment of Kingdom Clothing and Bonus scheme for MD

i. Appointment of Kingdom Clothing**Background**

BK appointed Kingdom Clothing (KC) as a new supplier in early 2022 and awarded them a contract for a new summer product range and an additional range for later in the year. Andrew Cox had approved KC as new supplier based on his previous working relationship with them. The first batch of products produced by KC have been received and are now available for sale on the BK website.

The owner of Southdown Clothing Company (SCC) has recently expressed concern at BK's decision to appoint KC and has made allegations about the materials used by KC and their production process.

Issues contained in the email and the implications for BK**Issue 1: the KC factory environment**

SCC claim that the KC factory is both unclean and dangerous, and that equipment and machines are very old and need to be either repaired or replaced.

Implication for BK

If these claims are true, this would generate several potential risks for BK. Firstly, this could affect the quality of the garments if the machines used to produce them are not fit for purpose and certainly not to the standard expected for BK's garments. The first batch of products from KC have been received and inspected, and of the required quality, but there is a risk that this may not continue in the future. Secondly, if the machinery is indeed dangerous then this creates an unsafe working environment for the staff at KC, and BK is clear that all suppliers should provide a clean and safe working environment for their employees. Finally, given the above, there is a risk that supply may be disrupted at some point if machines and equipment stop working and need time to be repaired. Although we have received the first batch of products from KC, there may be a risk regarding further orders in 2022 and beyond.

Issue 2: staff conditions at KC

SCC claim that staff conditions are "appalling" with limited health and safety measures and staff are forced to work excessively long hours and for minimal pay, even relative to levels of pay in Southdown.

Implication for BK

These working conditions, as mentioned above, contravene what BK expect from their suppliers as BK expect the employees of suppliers to be treated fairly in terms of pay and working hours. BK is proud of the reputation it has created and if the media were to report on these conditions, it may appear that BK are taking advantage of overseas suppliers, which would negatively impact the business and its brand.

Issue 3: a culture of cost cutting

SCC claim that KC always try to cut costs in any materials that they use. Obviously, our suppliers in Eastville will be providing the main raw materials to KC, but they may look to reduce cost on other accessory materials.

Implication for BK

As previously mentioned, this could have an impact on the quality of BK garments, which could result in further complaints and negative feedback shared on social media.

Issue 4: KC's relationship with customers

SCC claim that KC have been forced to terminate contracts in the past due to quality issues, missing deadlines, and a failure to communicate with its customer. It must be noted that KC have delivered their first batch of product as per our contract.

Implication for BK

For many years BK have developed a mutually successful relationship with its suppliers as seen by the fact that all five suppliers have been with BK since the start. BK and its suppliers will know how to deal with each other as their business practices have been developed over many years, which will include how they deal with any quality issues (which Jane has had to do recently following the increase in customer complaints) and how they regularly communicate on issues, either through the visits or via email. Dealing with a new supplier, KC, who does not operate in these ways will be difficult for BK to manage, especially in these earlier years.

Issue 5: BK's other supplier relationships

SCC, at the end of the email, recognise the long trading relationship that they have with BK, but are concerned whether the appointment of KC demonstrates a change in strategy for BK.

Implication for BK

If BK continue to trade with KC, and indeed start to award additional contracts to KC, SCC may terminate their supply relationship with BK. This may also force other existing suppliers to question their own future relationship with BK. BK has invested significantly in their supply chain, especially Jane, and the threat of losing some or all these suppliers would be significant for BK's future.

Actions for BK to consider

Following on from the evaluation above, I would suggest that you consider the following possible actions:

- 1) Arrange to speak with SCC – you and SCC have developed a good relationship over many years, and there is a risk here that SCC may decide to stop working with BK following the appointment of KC. You should therefore respond quickly to help address their concerns and give them re-assurance that BK will not be ceasing the relationship with SCC. You should also follow up your call with a written confirmation on what was discussed and agreed.
- 2) BK should review the supplier selection process. As BK appointed its current suppliers 12 years ago, there will probably be no formal process for supplier approval. BK has stated that it demands certain working conditions for its suppliers, but this may not be a formal part of the selection criteria. Andrew Cox obviously did not follow any formal selection process, as the KC contract appears to have been awarded based on his personal recommendation.
- 3) Meeting with Andrew Cox – as Andrew approved KC as a supplier following his visit to their factory in Southdown, it is important that you hear his views and thoughts on the working environment at KC. SCC may be exaggerating or fabricating the issues as they are frustrated at losing out on additional work with BK, and a further perspective on each of the issues highlighted above would be beneficial. This meeting could also clarify the actual criteria used by Andrew in his approval process. I should also point out that part of Andrews bonus criteria for 2022 is to increase sales margins for BK, so this could also be a factor in Andrew's decision to appoint KC.
- 4) A visit to KC – dependant on the findings from the actions above, it may require BK to visit the KC factory in Southdown to audit their working conditions and make recommendations for improvement where appropriate. Given that there is a contract for a further order later in the year, this visit could ensure that conditions are improved and some of the risk identified earlier may be reduced. I know that you are looking to reduce the number of visits overseas but given the serious nature of the allegations from SCC, it is important that BK, and preferably you, demonstrate to the existing suppliers that you take their concerns seriously and therefore arrange a visit and report on your findings. The meeting with Andrew should, however, first be arranged, as his views and feedback are important, and you would not want his judgement to be questioned if some or all of the allegations from SCC are unfounded. This could be a potentially sensitive issue with Andrew.

Marking scheme

Implications for BK – up to 2 marks for the implications of each issue identified in the email - up to a maximum of 10 marks.

Actions – up to 1 mark for brief and appropriate actions – to a maximum of 4 marks.

Suggested actions could include but are not limited to:

- *Arrange to speak with SCC*
- *Reviewing the supplier selection process for KC*
- *A meeting with Andrew Cox*
- *A visit to KC in Southdown.*

Maximum of 10 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
Evaluation skills in assessing the implications for BK of the allegations made in the email from SCC	<p>The candidate has demonstrated poor or no evaluation skills.</p> <p>The candidate has failed to assess the implications for BK following the allegations made in the email from SCC.</p>	<p>The candidate has demonstrated limited evaluation skills.</p> <p>The candidate has provided a limited assessment of the implications for BK following the allegations made in the email from SCC.</p>	<p>The candidate has demonstrated good evaluation skills.</p> <p>The candidate has provided a good overall assessment of the implications for BK following the allegations made in the email from SCC.</p>	<p>The candidate has demonstrated excellent evaluation skills.</p> <p>The candidate has provided an excellent assessment of the implications for BK following the allegations made in the email from SCC.</p>
	0	1	2	3

ii. Bonus scheme for the MD

Background

At the start of 2022 BK appointed Andrew Cox to be the new Managing Director (MD) and as part of his remuneration package a bonus scheme was implemented based on achieving improved targets for revenue and net profit in 2022.

Why the current bonus scheme is not appropriate

An effective reward scheme could have the following criteria:

- It should support the company strategy;
- It should have a positive effect on recruitment;
- It must be legal;
- It must be affordable;
- It must be able to motivate staff;
- It must be fair.

The current bonus scheme does not link to BK's environmental goals and targets. BK promotes itself as an ethical and sustainable business and have identified four environmental goals for the next 3 years to 2025, but the bonus scheme does not mention these goals.

The current scheme is only based on financial performance – i.e. to increase both revenue numbers and net profit – and not a broader set of measures, for example the bonus is not linked in any way to the quality of the products nor the level of customer satisfaction with the product.

The targets for the MD have not been shared, but given his role as BK's Managing Director, he has the ability to influence the criteria – revenue and margins – as he may be involved in decisions regarding pricing, promotion and supplier contracts, which could all potentially impact on BK's numbers for 2022.

Given that Andrew only joined BK at the start of 2022 it will be very difficult to see how his actions will have a significant impact on 2022 results, unless some rather quick wins were identified by him. This could then mean that Andrew takes short-term actions to affect his bonus attainment, which may be to the detriment of BK's longer-term future. One possible example of this is the appointment of KC as a new supplier and the awarding of a contract for 2022. This decision may have been made to take advantage of lower margins, thereby supporting 2022 targets, but there may well be quality issues, as suggested by SCC, which will have a longer-term negative affect for BK in future.

Alternative criteria for the MD bonus scheme

As Andrew is responsible for all company operations his bonus scheme should reflect the strategy and goals of the entire organisation.

Therefore, the achievement of environmental goals should be part of the criteria for his bonus scheme. Although the overall target is for these goals to be achieved by 2025, there should be interim targets for 2022, 2023 and 2024 for each of the 4 goals. Andrew should be incentivised to achieve the relevant annual targets.

There are three important elements to the mission – financially viable, environmentally sustainable and excellent products and services – so the environmental element could be met by reference to the environmental goals, and the financial element may be met by the existing targets, i.e. revenue and net profit, which would leave further criteria to represent excellent products and services. This could be based on both customer and supplier feedback in purchasing and working with BK.

Marking scheme

Why the current bonus scheme is inappropriate – up to 2 marks for relevant points applied to BK - to a maximum of 6 marks.

Alternative criteria for the bonus scheme - up to 2 marks for alternative criteria proposed and applied to BK – to a maximum of 4 marks.

Maximum of 8 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Very well
Analysis skills in assessing why the current bonus scheme is not appropriate for BK.	<p>The candidate has demonstrated poor or no analysis skills.</p> <p>The candidate has made generic points about bonus schemes and/or failed to provide a reasonable assessment of why the bonus scheme is not appropriate in this scenario.</p>	<p>The candidate has demonstrated good analysis skills.</p> <p>The candidate has provided some assessment of why the bonus scheme is not appropriate.</p>	<p>The candidate has demonstrated excellent analysis skills.</p> <p>The candidate has provided an excellent assessment of why the bonus scheme is not appropriate.</p>
	0	1	2