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# Answers

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- 1**     **To:** Kevin Williams, finance director  
**From:** Finance assistant  
**Subject:** The new finance Shared Service Centre  
**Date:** XX/XX/XXXX

### **Introduction**

This report seeks to address some of the key issues relating to the establishment of the Shared Service Centre (SSC) for finance, and recommends solutions to some of the issues identified.

#### **(a) Key issues with establishing the SSC**

##### **Seen as Imposed**

The SSC might be perceived as an external imposition forced upon the divisions, especially if its creation was top-down without consultation. This could lead to resistance from the divisional staff and managers who feel a loss of autonomy.

**(2 marks)**

##### **Recommendation:**

- **Engage divisions early in a consultation process:** Involve divisional leadership and key employees in the planning and decision-making processes for the new SSC. Communicate the rationale, benefits, and objectives of the centralised service centre early on in the process. Potentially the finance director could demonstrate some of the current disparity in practices and demonstrate the impact this has on consistency and control in the wider group.
- **Build trust:** Focus on relationship-building and demonstrating the value of the service centre by focussing on the 'business partnership' role early on, for example helping divisional managers to make decisions on siting new factories.

**(2 marks)**

##### **A uniform solution may not be appropriate**

GCF divisions will have diverse operational needs, processes, and cultural differences that a one-size-fits-all approach from the service centre may not effectively address. For example, the European division imports most of its produce from other divisions within the group. That division is going to be far more concerned about transfer pricing policies than, for example, the Asia and Middle East division which seems far more self-sufficient.

**(2 marks)**

**Recommendation:**

**Flexible service models:** Design adaptable processes that accommodate division-specific requirements while maintaining consistency in core functions – for example, consistent accounting policies can be adopted, whilst appreciating that a regional approach to product pricing will need to be catered for. The divisional consultation process mentioned above could include identifying the areas where flexibility is most needed.

**(2 marks)**

**Finance is removed from divisional decision-making**

At present, a particular finance function works for a particular division and is therefore likely to be highly sensitive and knowledgeable about the issues affecting that specific division. Centralising the finance function may effectively disconnect the service centre from the day-to-day realities and strategic priorities of individual divisions, reducing the relevance and perceived value of the finance function to the divisions.

**(2 marks)**

**Recommendation:**

- **Embed liaison roles:** Appoint relationship managers or "division champions" within the service centre to maintain close communication with divisional stakeholders.
- **Feedback mechanisms:** Create structured forums (e.g., monthly review meetings) for divisions to provide input on the service centre's operations.
- **Maintain strategic visibility:** Encourage the service centre team to participate in divisional strategy discussions to align SSC services with divisional goals.

**(2 marks)**

**Establishing a Service Level Agreement (SLA) and associated transfer price**

Without clear agreements, there may be misunderstandings about the scope, quality, and cost of services, leading to dissatisfaction or disputes. In effect the divisions are paying for a service. They will want to ensure they receive good value for money as they in turn are being assessed on their own divisional performance.

**(2 marks)**

**Recommendation:**

- **Collaborative SLA development:** Co-create SLAs with divisions, detailing service expectations, performance metrics, and reporting processes.

Ensure these agreements are realistic and mutually beneficial. For example, group reporting procedures and deadlines should be clear, with consequences for the SSC if targets are not met.

- **Transparency in pricing:** Establish a clear and fair transfer pricing mechanism that reflects the value provided by the service centre. It may be that activity-based pricing will be appropriate different the different size and needs of the different divisions. For example, a division that needs significant assistance in a major investment appraisal should be charged more than a smaller, more straight-forward division.
- **Regular SLA reviews:** Build flexibility into SLAs to allow for periodic adjustments based on evolving needs and performance outcomes. Perhaps a formal review every 3 months for the first two years of operation will allow the SLA to develop at a reasonable pace.

**(2 marks)**

### **Marking scheme**

- *Up to 4 marks for each issue evaluated with a recommendation applied to the scenario.*
- *Maximum of 14 marks in total for (a)*

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

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Somewhat</b>	<b>Quite well</b>	<b>Excellent</b>
<i>Evaluation</i> skills in identifying and evaluating the issues in the context of GCF	The candidate has not identified and evaluated the issues in the context of GCF	The candidate has somewhat identified and evaluated the issues in the context of GCF	The candidate has identified and evaluated the issues in the context of GCF reasonably well	The candidate has identified and evaluated the issues in the context of GCF
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>

**(b) Japanese business practices**

**Kaizen costing:** In principle, Kaizen costing involves a process of avoiding the creation of long-term cost reduction targets in favour of frequent, small improvements in efficiency. For example, rather than setting a cost reduction target for the SSC to meet over a year, the SSC may adopt a practice of ‘this month, aim to beat last month’s actual costs.’

This is counter to practice elsewhere in the group where annual targets are set and are the basis for performance measurement and paying bonuses, so applying this approach to the SSC would possibly not set a good example. In addition, many of the SSC’s costs will be outside their control – for example if divisions are making large decisions they require support on, the SSC would not want to be under excessive pressure to rush for the sake of reducing operational costs and so sacrificing the quality of service it provides.

**(2 marks)**

**Target costing:** In the context of the SSC this would mean:

- Assessing how much divisions are prepared to pay for the services provided by the SSC, maybe based on what they would need to pay to obtain the services elsewhere
- Deducting a reasonable margin to arrive at a target cost
- Forecasting costs and seeking to amend the SSC operating model adopted until forecast cost equals target cost.

The use of this technique is problematic in this case in many ways. Firstly, it is difficult to establish how much a division is prepared to pay for the services it receives. The divisions have no choice but to buy the services, and cannot obtain the services provided elsewhere. Secondly, the SSC is not a profit centre and so the deduction of a required margin is meaningless in this case.

**(2 marks)**

**Just in time:** Producing to order to allow a flexible response to customer needs may have some merits in this instance. In the case of ad-hoc services like decision support, it is important standard solutions are not prepared in advance but are produced in a timely manner after the request is made, based on the specific situation to hand.

However, the production of regular information, such as monthly accounts, in fact SHOULD be done in a standard manner to allow direct comparison of divisions and for the consistent application of group policies. So, although

there will be instances where a just-in-time approach has merit, there are other cases where this will not be the case.

**(2 marks)**

### **Total Quality Management (TQM)**

In the context of the SSC this would mean ensuring quality services are provided, first time, every time. It would involve creating a culture of quality over cost reduction, and an attitude of constant improvement. For example, monthly accounts should be diligently prepared with a target of zero errors.

TQM is directly applicable and important to the SSC. Divisions will expect high quality information and services every time, first time, or they will not feel obliged to follow advice or pay for the services received.

**(2 marks)**

### **Marking scheme**

- *Up to 1 mark for assessing the applicability of each technique for the SSC, up to a maximum of 4 marks.*
- *Up to 1 mark for each relevant example for each technique mentioned in exhibit 2 up to a maximum of 4 marks*

*Maximum of 8 marks in total for (b)*

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

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Quite well</b>	<b>Excellent</b>
<i>Commercial acumen</i> skills when giving examples of the use of Japanese business practices in this context	The candidate has not given examples of the use of Japanese business practices in this context	The candidate has given examples of the use of Japanese business practices that are of limited applicability in this context	The candidate has given examples of the use of Japanese business practices that are of direct applicability in this context
	<b>0</b>	<b>1</b>	<b>2</b>

**(c) Advantages of a single information system for data analytics in the SSC**

Implementing a single global information system in the SSC has significant potential to improve the quality of data analytics for performance measurement and management across GCF. The benefits include:

**Standardisation of data**

A unified system ensures consistent data definitions, formats, and structures across all divisions. This eliminates discrepancies such as the varying depreciation rates currently used for identical machinery, enabling better comparability of financial performance. It also means any data mining to find trends can work consistently between the divisions, yielding more reliable results.

**(2 marks)**

**Improved decision-making**

Centralised and standardised data supports more accurate and timely forecasting and analysis. For example, uniform data on production costs or internal transfers can allow for better resource allocation and pricing strategies, which are particularly important for GCF as a global company.

**(2 marks)**

**Enhanced transparency**

Consolidated data provides a single source of truth, reducing duplication and errors in reporting. This improves trust in the financial information shared across the group and supports Kevin Williams' aim of making the SSC a trusted business partner.

**(2 marks)**

**Efficiency gains**

Centralisation reduces duplication of effort. For instance, data cleaning and reconciliations will no longer need to be repeated across divisions, allowing finance staff to focus on value-adding activities such as investment appraisals and building business cases.

**(2 marks)**

**Advanced analytics capabilities**

Unified systems enable the integration of big data and advanced analytics, such as predictive modelling. For example, sales trends across continents can be analysed to identify growth opportunities or detect risks, such as over-reliance on internal transfers in some divisions.



**(2 marks)****Risks of Increasing the use of big data in the SSC**

While the opportunities presented by big data are substantial, there are notable risks that must be carefully managed:

**Data privacy and security**

With global operations, GCF must comply with data protection regulations such as GDPR in Europe and equivalent legislation in other regions.

Centralising data increases the risk of cyberattacks or breaches, which could result in significant fines and reputational damage.

**Over-reliance on data**

Big data might overshadow qualitative insights, leading to decision-making that neglects context or local nuances. For example, regional managers may feel that their expertise is undervalued if decisions are based solely on centralised data.

**Cost and complexity of implementation**

Establishing and maintaining a global information system is expensive and resource-intensive. This includes not only the technical setup but also the training required for staff to adapt to the new system. There is a risk that the costs outweigh the benefits or the costs cannot be easily funded by GCF.

**Data quality risks**

Big data analytics depends on the quality of the input data. If legacy systems or poor data entry practices persist in some divisions, the insights generated may be flawed, leading to incorrect conclusions and potential financial losses.

**Resistance to change**

Divisional managers may perceive centralised data analytics as a threat to their autonomy. This could hinder adoption and lead to incomplete or delayed data submissions.

**Marking scheme**

- Up to 2 marks for evaluating the ways in which having one information system in the SSC could improve the quality of data analytics, up to a maximum of 6 marks
- Up to 2 marks for each relevant risk of increasing the use of big data in the finance function of GCF up to maximum of 6 marks

Maximum of 10 marks in total for (c)

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

How well has the candidate demonstrated professional skills as follows:	Not at all	Somewhat	Quite well	Excellent
<i>Scepticism</i> skills when assessing the risks of increasing the use of big data in the finance function	The candidate has not used <i>scepticism</i> skills when assessing the risks of increasing the use of big data in the finance function	The candidate has somewhat used <i>scepticism</i> skills when assessing the risks of increasing the use of big data in the finance function	The candidate has used <i>scepticism</i> skills when assessing the risks of increasing the use of big data in the finance function reasonably well	The candidate has used excellent <i>scepticism</i> skills when assessing the risks of increasing the use of big data in the finance function
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>

**(d) Budget-constrained style**

The current suggestion is to adopt a budget-constrained style. This implies that the SSC's own budget will be seen as a limit line-by-line not to be breached.

This has many advantages in this case as it demonstrates financial discipline, which is important when the finance SSC will be asking for a controlled and disciplined approach to finance from the divisions. It should also help to ensure that the SSC does not overspend – important given that the transfer prices for its services will be set based on anticipated costs.

**(2 marks)**

However, this approach may be seen as excessively restrictive. For example, it may be necessary to employ additional help if the workload imposed on the SSC increases – if several divisions are making many key decisions that need support for example.

**(2 marks)**

**Profit-conscious style**

This would involve being mindful of the impact on financial performance when decisions are made in an overall sense. For example, there may be changes in global legislation that means the SSC staff need additional training that was not budgeted for. However, adopting a profit-conscious style would allow the training, especially if it produced savings in the long run.

**(2 marks)**

**Non-accounting style**

This would involve focussing on the effectiveness of the service offered, rather than on the financial cost of the services provided. The new SSC would not be managed with reference to financial key performance indicators, rather it would be managed with reference to non-financial measures, such as 'right first time' metrics, the standardisation of global practices and the quality of advice given to divisions.

**(2 marks)**

**Recommendation**

During the first year of operation, a non-accounting style would seem to be appropriate to ensure the new SSC is accepted by the divisions and is producing a good quality service for them. However, as divisions are paying for the service they receive, the SSC needs to provide value for money.

On balance a **profit-conscious** style should be adopted to set a good example, but with rewards and recognition also available for the quality of the services delivered.

**(2 marks)**

### **Marking scheme**

- *Up to 2 marks each point that relates to the appropriateness of a Hopwood management style to the SSC, up to a maximum of 6 marks*
- *Up to 2 marks for a reasoned conclusion.*

*Maximum of 8 marks in total for (d)*

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

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Quite well</b>	<b>Excellent</b>
<i>Analysis skills is applying the Hopwood model to the shared service centre.</i>	The candidate has not applied the Hopwood model to the shared service centre.	The candidate has applied the Hopwood model to the shared service centre reasonably well.	The candidate has applied the Hopwood model to the shared service centre well.
	<b>0</b>	<b>1</b>	<b>2</b>

If I can be of any further assistance or if you have any questions on the above, please do not hesitate to ask.

Best wishes

Finance assistant

**2 (a)** To: James Taylor, finance director, TMC  
From: Strategic analyst  
Subject: Funding the Graphite mine  
Date: XX/XX/XXXX

### **Introduction**

This report seeks to evaluate the role and influence that the Vanguard Sovereign Trust Fund (VSTF) has in the corporate governance of TMC. It goes on to consider the current proposed treatment of dividends in the upcoming financial statements and associated ethical issues.

**(i) The role and influence of VSTF as a key shareholder, and the Non-Executive Director they have placed on the TMC Board, in the corporate governance of TMC**

**Majority shareholder:** VSTF is a majority shareholder in the company. It therefore has taken on a role of providing significant finance to the organisation. It has done this directly through buying shares in the original floatation and the additional placement of shares five years ago.

**(2 marks)**

**Non-executive director (NED):** The VSTF representative is also a non-executive director on the board. As a NED it effectively has four roles:

- **Strategy:** as a NED the VSTF representative should contribute to the strategic direction of the business on behalf of all the shareholders and the wider stakeholder community. There is a danger that this input is not objective and independent as the NED is representing the VSTF objectives, and not the minority shareholders or other stakeholders necessarily. For example, other shareholders may be happy with a reduction in dividend to finance the mine expansion, but VSTF are not.

**(2 marks)**

- **Scrutiny:** The VSTF representative should scrutinise the actions of the executives to ensure that they are in the best interest of the shareholders and wider stakeholder community. Once again, they are likely to be biased in this scrutiny to ensure that VSTFS objectives are being prioritised. It is noted that they are absent from a recent meeting discussing significant tissue such as the expansion into a graphite mine and its financing. This may mean that they are not giving sufficient scrutiny to executive plans.

**(2 marks)**

- **Risk:** As a NED the VSTF should ensure that risk is being identified and adequately managed by the organisation. The current expansion plans have no obvious financing alternatives other than reducing the dividends. Putting pressure to maintain dividends on the company without any alternative funding options may therefore ultimately risk the expansion decision being delayed or rejected, compromising both VSTF and the minority shareholders from maximising their wealth.

**(2 marks)**

- **People:** As a NED the VSTF representative should ensure the composition of the board is sound and that the executives are remunerated in such a way as to motivate them appropriately in the execution of their roles. Once again, the VSTF representative may struggle to be objective and independent in this matter and may seek to ensure that executive directors are motivated to achieve VSTF objectives and that the board composition is sympathetic to VSTF objectives.

**(2 marks)**

**Represent their own investors:** As institutional investors, it is the role of VSTF to invest funds on behalf of their own investors, and to represent the objectives of their own investors in that role. Given the fact that TEIS's need for cash flow is forming the basis of decision-making within TMC indicates that ultimately TEIS investors' needs are being considered – in other words, they are representing their own investors' needs.

**(2 marks)**

### **Marking scheme**

- *Up to 2 marks for each issue evaluated up to a maximum of 8 marks*

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

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Somewhat</b>	<b>Excellent</b>
<i>Analysis</i> skills in presenting the various aspects of the role and influence of VSTF in the corporate governance of TMC	The candidate has not presented the various aspects of the role and influence of VSTF in the corporate governance of TMC	The candidate has presented the various aspects of the role and influence of VSTF in the corporate governance of TMC, but the implications for TMC and its stakeholders are not examined sufficiently	The candidate has presented the various aspects of the role and influence of VSTF in the corporate governance of TMC, and the implications for TMC and its stakeholders are examined well
	<b>0</b>	<b>1</b>	<b>2</b>

**(ii) The proposed treatment of dividends in the financial statements**

The proposed treatment of dividends in the financial statements does meet the desirable qualitative characteristics of useful financial information in a number of ways:

- **Relevance:** Dividend information is relevant to the users, particularly VSTF as a majority shareholder with a cashflow requirement. Disclosing dividend information therefore meets this criteria.

**(2 marks)**

- **Timeliness:** the dividend announcement is being made in advance of the dividend being paid, and there is no indication that the announcement is going to be made late. It appears therefore that the proposed treatment meets the characteristic of timelines.

**(2 marks)**

However, it fails to meet the desirable qualitative characteristics of useful financial information in other ways:

- **Faithful representation:**

- Hiding the details of the dividend announcement in an obscure note does not accurately represent what is happening to dividends this year compared to previous years. It may be considered to be deliberately misleading to hide the reality that the cash dividends are not being paid the same level as they have been previously.

**(2 marks)**

- Although dividends are being proposed, there is no intention to pay any cash for two years so it could be argued that the proposed dividend is not in fact even a dividend being taken out of the current year's profits.

**(2 marks)**

- **Understandability:** The intention to describe the dividends using excessively technical language in a footnote suggests it will be made deliberately difficult to understand, potentially to mislead readers.

**(2 marks)****Marking scheme**

- *Up to 2 marks for each point comparing the proposed treatment with a desirable qualitative characteristic of financial information, up to a maximum of 6 marks*

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

How well has the candidate demonstrated professional skills as follows:	Not at all	Somewhat	Excellent
<i>Scepticism</i> skills in evaluating the proposed treatment of the dividends.	The candidate has not demonstrated <i>scepticism</i> skills in evaluating the proposed treatment of the dividends.	The candidate has demonstrated some <i>scepticism</i> skills in evaluating the proposed treatment of the dividends.	The candidate has demonstrated sound <i>scepticism</i> skills in evaluating the proposed treatment of the dividends.
	<b>0</b>	<b>1</b>	<b>2</b>



(iii) **Ethical issues arising from the suggested treatment of dividends**

The board has a **fiduciary duty of care** to manage the business on behalf of its principal – the shareholders. It is understandable that the Board is considering the proposed treatment of dividends as it may ultimately facilitate investment in a project that ultimately should maximise shareholder wealth.

**(2 marks)**

However, this could be argued to be a very teleological (or ‘the end justifies the means’) approach. The deontological perspective (i.e. the morality of the actions in themselves) gives a different, and potentially problematic perspective:

**Integrity:** Hiding key aspects relating to the dividends in a note, shrouded in technical language is not being straightforward and honest. If this becomes public, it may damage trust in the board and its ability to run the business effectively.

**(2 marks)**

**Professional competence and due care:** the financial statements should show a true and fair view of the performance and position of TMC. Providing for a dividend that won’t be paid for two years and failing to highlight key aspects important to the reader could be argued to be failing in the board’s duty to present that true and fair position. This is particularly a concern for you in your capacity as the finance director.

**(2 marks)**

**Professional behaviour:** If the proposed treatment was to become public it is likely that it could reflect badly on the accounting profession as one of their representatives has devised and supported the treatment. You, and others on the board who approve this course of action, could be accused of behaving unprofessionally.

**(2 marks)**

**Objectivity:** The financial statements should be prepared without undue bias. This would clearly not be the case here as the proposed treatment of the dividends is being driven by a desire to withhold dividends without publicising the fact.

**(2 marks)**

Despite undoubtedly good intentions for the suggestion relating to the presentation of dividends in the financial statements, there are several ethical issues that I think need to be consideration and the proposed treatment should be amended accordingly.

### **Marking scheme**

- *Up to 2 marks for each ethical issue assessed*

*Maximum of 6 marks in total for (a)(iii)*

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

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Somewhat</b>	<b>Excellent</b>
<i>Communication skills in presenting the ethical issues sensitively to James Taylor.</i>	The candidate has not demonstrated sound <i>communication</i> skills in presenting the ethical issues sensitively to James Taylor.	The candidate has demonstrated limited <i>communication</i> skills in presenting the ethical issues sensitively to James Taylor.	The candidate has demonstrated sound <i>communication</i> skills in presenting the ethical issues sensitively to James Taylor.
	<b>0</b>	<b>1</b>	<b>2</b>

Please do not hesitate to contact me if you have any questions.

Best wishes

Strategic analyst

**(b) MEMORANDUM**

To: Sarah Gimmel  
From: Strategic analyst  
Subject: Empowerment  
Date: XX/XX/XXXX

Dear Sarah

I hope you are well. Further to recent discussions you've had with James Taylor about the possibility of empowerment helping the organisation to improve performance in relation to TMC's 'key areas of improvement', I include some recommendations below for further consideration as to exactly how this may work.

**CSF: High customer retention, engagement and satisfaction**

Customer satisfaction is highly likely to be dramatically improved if the staff members directly dealing with customers have freedom to manage those relationships in a flexible and responsive way. It may be that presently, for example, customer requests have to be referred to management causing a delay and presenting a bureaucratic rather than friendly and cooperative face to customers. TMC could set targets for customer retention, engagement and satisfaction and provide staff with resources and time as well as decision-making ability connected with taking and varying orders, and potentially even pricing. Control can still be maintained by putting boundaries on these discretionary areas, for example by the use of IT to limit ad-hoc discounting. Training would need to be provided to ensure staff have the skills and confidence to deal with customers in this way.

**(3 marks)**

**CSF: Ensure existing mines are as productive as possible**

A team-based target could be set for value mined per day per employee, with some flexibility being given as to how employees arrange schedules and which equipment they use in mining operations. The culture of TNC would need to change so as not to be too budget constrained – it has been suggested that there is a tendency to keep costs low as opposed to being productive. Some flexibility will need to be given when assessing performance to budget.

**(3 marks)**

**CSF: Effective use of state-of-the art technology to improve decision making and productivity**

An innovation fund could be created for staff to pitch their ideas to for the use of technology to improve decision-making and productivity. Successful ideas would lead to the creation of project teams to implement them. The staff members originating the ideas should be heavily involved in the project team. Bonus incentives could be provided as a percentage of the productivity improvements created, although in some instances this may be difficult to measure. In these cases, a flat rate bonus could be paid for people authoring the best ideas.

**(3 marks)**

**CSF: Quality control that ensures only the best quality marble is extracted and graded accordingly**

The average price extracted per ton of marble in comparison to world prices should be set as a key performance indicator for staff. A quality circle should be formed with representatives from multiple departments to focus on improving the quality of marble extracted and grading it accurately. The quality circle would need resources and would need to be given flexibility to implement ideas with approval. Care would need to be taken to balance quality with quantity in case output is reduced to just focus on higher quality marble. To a degree this can be catered for by having the productivity KPI mentioned above in addition to quality achieved.

**(3 marks)**

**CSF: Well-educated and motivated staff**

A training budget should be established for each staff member that they have some flexibility over how it is spent. Staff could be asked to prepare a brief business case for their proposed training courses to justify their suggestions. These business cases could be assessed by managers but should be done so in a cooperative and flexible manner to ensure the employees maintain ownership of their own decisions.

**(3 marks)**

**CSF: Effective prospecting methods**

A benchmarking team could be set up of employees, lead by mining engineers, to compare the success and operation of TMC's prospecting activity with other successful mining companies. Resources should be given to the group once improvement projects have been identified and approved by the board. Improvements in prospecting activity effectiveness should be rewarded if as a result of the activities of the benchmarking team and subsequent projects.

**(3 marks)**

In essence, a change in culture as well as a change in processes will be required to allow employees the freedom to make their own decisions, including their own mistakes at times, without fear of excessive recrimination.

Please let me know if you have any questions.

Best wishes

Strategic analyst

### **Marking scheme**

- *Up to 3 marks for each recommendation explaining how CSF's will improve as a result of empowerment*
- *Maximum of 12 marks in total for (b)*

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

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Somewhat</b>	<b>Excellent</b>
<i>Commercial Acumen skills when assessing the Human Resources director's views on the use of empowerment..</i>	The candidate has not demonstrated sound <i>commercial acumen</i> skills when assessing the Human Resources director's views on the use of empowerment..	The candidate has demonstrated limited <i>commercial acumen</i> skills when assessing the Human Resources director's views on the use of empowerment.	The candidate has demonstrated sound <i>commercial acumen</i> skills when assessing the Human Resources director's views on the use of empowerment.
	<b>0</b>	<b>1</b>	<b>2</b>

**(c) EMAIL**

To: James Taylor, finance director, TMC  
From: Strategic analyst  
Subject: Changes to budgeting approach  
Date: XX/XX/XXXX

Hi James

I hope you are well. As requested below are my thoughts on the proposed changes you discussed with Sarah Gimmel recently to the TMC budgeting process and further recommendations for you to consider.

The current approach is a periodic incremental fixed budgeting system whereby budgets are set based on the prior costs and the budget is not flexed to actual activity levels. Your proposals go a long way to rectifying the associated issues:

**Zero basing each year:** This will facilitate a fundamental 'ground-up' rethink of the budget each year. This will help to prevent the issue of constraining budget holders to behave in a similar way to the prior year. This will be particularly important given the increased mechanisation of mining, and the expansion of the business into the graphite mine. However, zero based budgeting will involve a considerable amount of effort and staff may not have the skills to be able to build a budget from the ground up. It also requires the budget setter to justify every line of expenditure which may feel demotivational if they are having to justify the continuing employing of staff. Zero basing could perhaps be done in key parts of the business that suffer most from the incremental approach taken currently, and/or could be done on a rotational basis with each area being zero based say every five years.

**(3 marks)**

**Amend on a rolling basis:** Amending the budget on a rolling basis is a particularly good idea when facing change as the business is doing currently – with the new graphite mine for example. It will make targets more realistic in the face of on-going change. This budgeting approach will take significantly more effort than currently, and there is a danger that it may be seen as “moving the goal posts”. In other words, if the business performs better early on in the year than anticipated, with a rolling approach targets will be made tougher later in the year as a consequence – so some may feel this is penalising them for good performance.

**(3 marks)****Flex the budget to actual activity levels for the end of year assessment:**

this is important and should be done as a matter of course. If the budget is not flexed to actual activity levels, variances on which staff are being assessed will not be fairly measured. For example when the graphite mine becomes productive, costs will likely increase as output increases. If the budget is not flexed accordingly, then comparing actual to original budget may show cost overruns not actually representative of bad performance, but simply a higher activity level than originally anticipated.

**(3 marks)****Summary of recommendations**

The recommended approach should be adopted with the following additional recommendations for your consideration:

- Only zero base some budgets each year on a rotating basis to reduce the workload involved in doing this. You should start on the key, largest and most significant budgets.
- More thought needs to be given to whether a rolling basis will demotivate staff. If so, the amendment to target will need to be catered for in the appraisal process to ensure staff are not indirectly demotivated through the amendment of targets.

**Marking scheme**

- *Up to 3 marks for each evaluation of the changes and associated issues*
- *Up to 3 marks for recommended changes to the current proposed budgeting amendments*
- *Maximum of 8 marks in total for (c)*

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

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Somewhat</b>	<b>Excellent</b>
<i>Evaluation</i> skills in assessing the proposed changes to the current budgeting approach.	The candidate has not demonstrated <i>evaluation</i> skills in assessing the proposed changes to the current budgeting approach.	The candidate has demonstrated limited <i>evaluation</i> skills in assessing the proposed changes to the current budgeting approach.	The candidate has demonstrated sound <i>evaluation</i> skills in assessing the proposed changes to the current budgeting approach.
	<b>0</b>	<b>1</b>	<b>2</b>