
Answers

1 (a) REPORT

To: TPFM Management Team

From: External Consultant

Date: XXXX

Subject: Proposed "Eat Healthy" programme with EHD

Introduction

The following report sets out several key issues which the management team of TPFM should consider in relation to the proposal to partner with the City of Ertondale's Health Department (EHD) to deliver its proposed Eat Healthy programme. The proposal to work in a collaborative partnership with EHD is appealing for TPFM, and there are several opportunities and threats which must be considered.

Opportunities

Enhances TPFM's reputation

Participating in a programme such as this could raise your profile and therefore enhance your reputation across Ertondale, and possibly Tagland. This could be beneficial in generating more business across the 12 districts of Ertondale, and especially in the Education sector, as TPFM has not previously worked with schools. Association with a high-profile, city-wide initiative such as this could improve your overall reputation in the market and potentially attract new customers, suppliers, and prospective employees.

Leads to more partnership collaborations

This may open opportunities to deliver more programmes such as this in the future. The proposal states that this is a pilot programme for 12 schools (1 in each district of Ertondale) and if successful, TPFM could be well placed to have a significant role in the further delivery of the programme across all 2,100 primary schools in Ertondale. This could lead to further programmes and partnerships in the future with other city and national government departments, which may open a whole new market for you and potentially help further develop your consulting division.

Increased awareness of food business

As stated above, your general profile across the 12 districts should be increased due to the additional publicity which this programme will attract, which could then generate more interest in your plant-based frozen food business. The programme itself also offers the opportunity for TPFM to demonstrate its food recipes to school children, and their parents, which further enhances awareness of your existing product range.

Threats

Public and private sector collaborations often fail

Collaborations between public and private sector organisations can be difficult as the ways of operating may be different and there may be organisational and cultural differences. TPFPP have not previously worked with public sector bodies or government departments. This may result in difficult working arrangements and the programme may be perceived by the stakeholders (children, parents, schools, EHD) as a failure. This could then damage TPFPP's reputation, and not only with EHD but also across Ertondale.

Adverse effect on core business

The programme will require resources, costs, and management time from TPFPP, and this may need to be diverted from your existing food business and/or from the consulting division. Although the first stage is a pilot programme, which will have a more limited impact on TPFPP, if you did wish to be involved in the delivery to all 2,100 schools across Ertondale, this could have a more significant impact on your existing operations.

Different partner objectives

Although there are similarities in the objectives of delivering this programme, EHD is likely to have different overall objectives for this programme to TPFPP. EHD's long-term focus will be on the measurable improvements to child obesity but for TPFPP, your objective will ultimately be the impact of the programme on your long-term business reputation and profitability.

Operational difficulties

TPFPP will invest time and resource into the delivery of the proposed programme, but they may encounter unknown difficulties or issues in accessing all the schools and the children due to be involved in the programme. This may be due to reasons outside of TPFPP's control but could result in TPFPP not receiving the full payment of the programme fee (\$180k).

No guarantee that the programme will be extended

EHD have asked their partner to advise on a delivery plan for all 2,100 primary schools, but there is no guarantee that this will happen or that EHD have the required funding in place to support the wider rollout of the programme. This could be a threat to TPFPP as you have no control over this and may invest significant time and resource into the pilot without the "Eat Healthy" programme developing any further.

Recommendation

The proposed programme with EHD offers both opportunities and threats, as highlighted in this report, and it is an excellent recognition of your work that TPFPP has been asked to submit an expression of interest to deliver the programme.

As this initial proposal is based on a pilot programme only, this reduces the level of risk for TPFPP and allows you to find out whether this is a programme that you would wish to deliver on a wider scale in future. It does support your mission statement (to inspire more people to eat more plants) and it should enhance your reputation within Ertondale. This could have a positive impact in terms of further raising awareness of TPFPP as a company, in both food and consulting, and will bring plant-based food to a wider audience. I would therefore recommend that TPFPP submit an expression of interest in delivering the programme.

Marking scheme

- *Up to 2 marks for each relevant opportunity identified and applied directly to TFPF. Marks capped at 1 mark per point where opportunities are generic and not applied to TFPF, up to a maximum of 2 marks.*

Possible points:

- *Enhances TFPF's reputation*
- *Leads to more partnership collaborations*
- *Increased awareness of food business*

Maximum of 6 marks

- *Up to 2 marks for each relevant threat identified and applied directly to TFTP. Marks capped at 1 mark per point where threats are generic and not applied to TFPF, up to a maximum of 2 marks.*

Possible points:

- *Public/private sector collaborations often fail*
- *Adverse effect on core business*
- *Different partner objectives*
- *Operational difficulties*
- *No guarantee that the programme will be extended*

Maximum of 6 marks

- *Up to 2 marks for reasoned recommendation on whether TFPF should submit an expression of interest.*

Maximum of 2 marks

Maximum of 12 marks in total for 1a.

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 considering and reflecting on the available evidence relating to the proposed collaborative partnership.	<p>The candidate has failed to adequately consider and appropriately reflect on most of the evidence available relating to the proposed partnership.</p> <p>The candidate has not applied their points to the scenario.</p>	<p>The candidate has considered some of the potential opportunities and threats but there was limited evidence of real reflection of the most relevant information presented.</p>	<p>The candidate demonstrated some evidence of sound analysis by reflecting on several important opportunities and threats from the information presented.</p> <p>The answer is presented in the correct format.</p>	<p>The candidate has demonstrated excellent analysis skills. The candidate clearly considered and reflected on the key opportunities and threats of the collaborative partnership.</p> <p>The answer is presented in the correct format.</p>
	0	1	2	3

(b) EMAIL

To: Selina Dowling
 From: External Consultant
 Date: XXXX
 Subject: New employee reward scheme for TFPF

Hi Selina,

Following Alvaro's idea for a new employee reward scheme at TFPF for 2024, I have first calculated, based on the projected financial performance in TFPF in 2024, what the forecast payment per employee would be if TFPF introduced a profit related bonus scheme for all employees, which I understand is Alvaro's preference. I have then provided an evaluation of the proposed scheme, in the way that it links staff rewards to the overall profit performance of TFPF.

(i) Calculation of potential 2024 bonus payment

2024 forecast performance:

Revenue	15% increase	$\$17m \times 1.15 = \$19.55m$
Net margin	6.5%	
Profit	$\$19.55m \times 6.5\% = \$1,270,750$	
Employees	272	

Profit available for bonus payment: $30\% \times \$1,270,750 = \$381,225$

Bonus payment per TFPF employee: $\$381,225 / 272 = \underline{\$1,402}$

(ii) Evaluation of the scheme to link staff rewards to overall profit performance

For

Motivation for TFPF employees

A good reward scheme should motivate employees to play their part in contributing to the achievement of an organisation's objectives. By linking performance to profit, TFPF could focus the attention of staff on finding ways to reduce costs, where possible, and options for new revenue opportunities. This, in turn, could result in increasing profits for TFPF, but staff would also share in this increase, based on the proposed 30% allocation to the bonus pool.

Transparent and clear measure

With a single measure of performance, such as profits, the communication and reporting of performance against the target would be clear and transparent for all staff within TPF. Some reward schemes can be very complex and difficult to understand for staff and management, whereas a company profit measure is simple and more likely to be understood by most members of staff.

Against

A short-term view

As profit is an annual measure of performance, this could encourage management and staff to take a short-term view and actions that could improve profits for the current period, but this may be detrimental for TPF in the long term. For example, TPF could look to use cheaper ingredients in the meals, which would reduce costs (and increase profits) but may reduce quality for customers and result in lower future sales.

Difficult for staff to contribute

Many of the staff at TPF may feel that they cannot actively contribute to the company's overall profit performance, due to the nature of the work they perform, for example, kitchen staff, consultants, and head office staff. A good reward scheme should ideally allow all staff to make an active contribution towards the achievement of the target.

I hope the information provided on the proposed reward scheme for TPF is clear, and you have some points to inform your further discussion with Alvaro, but if you have any further questions, please do not hesitate to contact me.

Regards
External Consultant

Marking scheme

(i) *Up to 2 marks for calculating the bonus payment per employee (\$1,402).*

Maximum of 2 marks

(ii) *Up to 2 marks for each relevant point that evaluates the scheme to link rewards to overall profit performance of TFPF. Award 1 mark per point if the point is not applied to TFPF, up to a maximum of 3 marks.*

Maximum of 8 marks

Maximum of 10 marks in total for 1b.

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 presenting a bonus calculation for 2024 and a clear evaluation of the proposed scheme to link rewards to overall profit performance at TFPF .	The candidate has failed to provide a bonus calculation for 2024 or failed to clearly evaluate the proposed reward scheme. The candidate has not applied their points to the scenario.	The candidate has made a good attempt at presenting both the bonus calculation for 2024 and a clear evaluation of the reward scheme. The answer is presented in the correct format.	The candidate has clearly presented a correct bonus calculation for 2024 and a clear evaluation of the reward scheme.. The answer is presented in the correct format.
	0	1	2

(c) BRIEFING PAPER

To: Alvaro Dominguez

From: External Consultant

Subject: Performance evaluation of TFPF's consulting division in 2022

Performance of TFPF's Consulting Division

To evaluate the performance of the Consulting Division (CD) in 2022, the Fitzgerald & Moon's building blocks model will be used. This model proposes that there are six dimensions of performance which are applicable for service industries. They state that two of these, (financial performance and competitiveness) are the results of actions previously taken and reflect the success of the chosen strategy. The remaining four dimensions (quality, flexibility, resource utilisation and innovation) are factors that determine financial performance and competitive success now and in the future. The performance of CD will be analysed below using the first two dimensions of the model.

1. Financial performance

Summary statement of profit or loss for the year ended 31 December 2022

	<i>Budget</i>	<i>Actual</i>
	\$000	\$000
Fee income (W1)	1,800	2,250
	<hr/>	<hr/>
<u>Costs</u>		
Consultants' salaries (W2)	1,000	1,000
Bonus (W3)		225
Other operating expenses	750	825
Subcontractors (W4)		20
	<hr/>	<hr/>
Total costs	1,750	2,070
	<hr/>	<hr/>
Net profit	50	180
	<hr/>	<hr/>

(W1) Fee Income:

Budget 3,600 (2,400 + 1,200) chargeable consultations x \$500 per consultation

Actual 4,500 (2,800 + 1,700) chargeable consultations x \$500 per consultation
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(W2) Consultants salaries: 20 x \$50,000 per annum

(W3) Bonus: Actual income \$2,250k less Budget income \$1,800k = \$450k x 50%

(W4) Subcontractors: 80 consultations at \$250 per consultation

CD has performed better financially in 2022 compared to its budget. Profits are up by 260%, which is primarily due to a 25% improvement in fee income. Although operating expenses have increased by 10%, the only additional costs are subcontractor expenses (\$20k) which have been incurred for business development activities due to consultants not being available. The \$225k bonus amount, to be shared between the consultants, is because of the improved income performance for 2022. It would be beneficial to view CD's performance in 2021 for comparison, but based on 2022 performance compared to budget, CD has performed well.

2. Competitiveness

Competitiveness may be measured in terms of market share or sales growth and the relative success in obtaining business from enquiries made by customers. The revenue for 2022 is above budget which is therefore positive and an indication of greater competitiveness. It would be better if we could see the results of recent years as it might well be the case that CD has achieved steady growth which is indicative of a growing level of competitiveness. CD provided 480 consultations on a no charge basis with a view to gaining new business. This was a 71% increase on the budget for 2022. This may be an indication of future levels of competitiveness as these consultations may result in future chargeable work for CD.

It is useful to look at the extent to which CD was successful in converting the enquiries received from both existing and new client enquiries into new business. The percentages are as follows:

	<i>Budget</i>	<i>Actual</i>
Conversion rate from enquiries		
New business	32.4%	32.9%
Repeat business	57.1%	77.3%

Workings:

New business:

Budget: 2,400 consultations from 7,400 enquiries

Actual: 2,800 consultations from 8,500 enquiries

Repeat business:

Budget: 1,200 consultations from 2,100 enquiries

Actual: 1,700 consultations from 2,200 enquiries

77% of enquiries from the existing clients resulted in additional consultancy work for CD. This is an example of how competitive CD is seen by its existing clients, as based on their enquiry they felt that CD was suitable for a consultation to be arranged. However, the company was unable to replicate this with enquiries from potential new customers, only achieving a conversion ratio of 33%. This indicates that there may be scope for improvement in the ways in which CD deals with enquiries from prospective clients. If CD continue to only convert new business enquiries at this level this could have a negative effect on future competitiveness. The company should review its marketing strategies with a view to improving its conversion ratio. In absolute terms new business consultations were 17% above budget and repeat business consultations were 42% above budget.

Marking scheme

If candidates do not use the Fitzgerald and Moon Building Blocks model, credit should be awarded for relevant points in line with the mark scheme below, but candidates should be awarded 0 professional skills marks.

Financial performance

- *1 mark for each of the workings shown in the summary profit/loss calculation for 2022 – up to a maximum of 4 marks.*
- *Up to 2 marks for evaluating CD's financial performance for 2022 and referring to the profit calculations.*

Maximum of 6 marks

Competitiveness

- *1 mark each for the calculation of the conversion rates for new and existing business – up to a maximum of 2 marks*
- *Up to 2 marks for other related points in relation to CD's competitiveness (i.e. comments on the conversion of enquiries to business)*

Maximum of 6 marks

Maximum of 10 marks in total for 1c.

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 performance of TFPF's consulting division in 2022.	The candidate has failed to adequately assess the performance of the consulting division in 2022. OR The candidate has not applied the Building Blocks model.	The candidate has attempted to assess the performance of the consulting division using the three required dimensions but has not used the available data appropriately.	The candidate has assessed the performance of the consulting division in 2022 using the three required dimensions and referred to relevant data. The answer is presented in the correct format.	The candidate has provided a clear assessment of the performance of the consulting division using the three required dimensions and referred to relevant data throughout. The answer is presented in the correct format.
	0	1	2	3

(d) EMAIL

To: Ali Hussein

From: External Consultant

Date: XXXX

Subject: Investment in new asset tracking system

Hi Ali,

I am writing to you regarding the proposed new RFID (radio frequency identification device) system for asset tracking at TPF, I have identified below the likely costs and benefits that I believe would be applicable if TPF were to proceed with investing in this system. This should hopefully help you brief Alvaro on his request for this information.

Costs**Hardware and software**

An RFID system will require the purchase of various hardware components, which may include tags, antenna, readers, and the associate software to be able to collect, manage and report on the information. For TPF this would be asset tracking software.

Training costs

The new system would help change how TPF manages its assets, most notably its kitchen equipment. Therefore, training and education sessions will be required for senior chefs and kitchen operations teams. Kitchen staff will not be required to implement the system but will need to understand how the system works as they will need to access the information when scheduling equipment for kitchens and customer orders.

Employee time

TPF employees will be required at the start of the project, in setting up a new system and throughout the implementation phase. This may divert employees away from their core roles within TPF, so the system may result in additional overtime payments to allow staff to perform dual roles for a period. It will also require ongoing development and monitoring, although this will hopefully be partially offset by time saved from the current operation of asset tracking within TPF.

Benefits

Accuracy

Once operational the system should be more accurate and up to date, which is an issue with the existing system. TPFP should be able to see in real-time where all equipment is across its 12 kitchens, and if transfers are required, these should be easy to arrange.

Time saving

The current way of operating means that chefs and other kitchen staff may be searching for various items of equipment, as there is no accurate record. This time would be saved with the RFID system.

Cost saving

If TPFP have an accurate record of equipment and locations it should mean that TPFP get more effective use from the purchased equipment, and this equipment does not lay redundant, which is potentially happening now as equipment cannot be located. Also, equipment is sometimes purchased when it is not required, as the equipment is still available for use in TPFP but cannot be found. This is incurring additional expenditure, which would be saved with the new system.

Improved security and control

Overall, the system will ensure that TPFP records and safeguards assets through a more detailed and efficient recording and monitoring system. It will also reduce the threat that equipment may be stolen.

Advice

Based on the points raised in this email I believe that the implementation of an RFID system would be beneficial for TPFP. This could help address some of the weaknesses of the current system and provide a more structured approach for TPFP to maintain control of its asset records. It will also provide TPFP with a more scalable system as the organisation continues to grow in the future. I would therefore advise that you progress with a formal business case for this investment.

I hope this provides you with some of the likely costs and benefits of a new asset tracking systems using RFID technology and will help you to brief Alvaro, but if you have any further questions before or after your meeting the please let me know.

Regards
External Consultant

Marking scheme

- *Up to 2 marks for each relevant cost discussed.*

Possible points:

- *Hardware and software*
- *Training*
- *Employee time*

Maximum of 4 marks

- *Up to 2 marks for each relevant benefit discussed.*

Possible points:

- *Accuracy*
- *Time saving*
- *Cost saving*
- *Improved security and control*

Maximum of 4 marks

- *Up to 2 marks for reasoned advice on whether Ali should proceed with a formal business case.*

Maximum of 8 marks in total for 1d.

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 assessing appropriate costs and benefits for TPF to consider.	The candidate has failed to identify relevant costs or benefits for TPF to consider in relation to a proposed RFID system for asset tracking.	The candidate has identified several general costs and benefits in relation to a RFID system, but points are not sufficiently related to TPF. The answer is presented in the correct format.	The candidate has identified relevant costs and benefits in relation to a RFID system with specific reference to the current issues with TPF's existing system. The answer is presented in the correct format.
	0	1	2

2 (a) BRIEFING NOTE

To: John McPherson
From: External Consultant
Subject: CEO leadership traits

As we discussed in our meeting, your plan is to list MGR in 2025. You have been advised that investors may expect an external CEO to be appointed and have asked what leadership traits would be expected for the CEO role when leading MGR as a listed company.

Leadership traits**Good communicator**

The shareholder profile will change for MGR as 49% of shares will be owned by external, non-family investors. These investors will require ongoing communications and dialogue and therefore the new CEO will need to be an excellent communicator and ensure that shareholders continue to be informed and involved in MGR's strategic plans and performance.

Strategic focus

The CEO should have a strategic focus and the ability to see beyond operational issues and view the longer-term impact for MGR. You have set out two objectives for MGR as a listed company, but the new CEO will need to re-assess MGR's position and establish their own vision for the future.

Well connected

The new CEO should be an experienced business professional with a wide contact network. MGR wishes to develop relationships with the world's largest organisations, and therefore recruiting a CEO with access to those connections could be invaluable.

Innovative approach

Another objective of MGR is create new opportunities, including new sectors and finding suitable acquisitions, so a CEO with experience of the acquisition process but also on how best to integrate acquired companies into MGR, would be beneficial and help to minimise the possibility that acquisitions may fail.

Confident manner

MOG and MPS are well-established divisions, and led by experienced members of the McPherson family, who wish to continue to play a large part in MGR's future leadership. The new CEO will need to be confident and assertive

to maintain his or her perspective, especially if that perspective is not consistent with the previous way of operating.

Marking scheme

Up to 2 marks per well explained point that advises on the key leadership traits that would be expected of a CEO role in leading MGR as a listed company.

Possible points could include, but are not restricted to:

- *Good communicator*
- *Strategic focus*
- *Well connected*
- *Innovative approach*
- *Confident manner*

There are many different leadership traits, so candidates have discretion here, but any traits must be clearly linked to the scenario. 1 mark per point if a trait is explained but does not relate back to the scenario and a maximum of 3 such generic points. Candidates should not be awarded credit for listing leadership traits without explanation or application.

Maximum of 8 marks in total for 2a.

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 showing insight into appropriate leadership traits for the future CEO role at MGR.	The candidate has demonstrated no commercial acumen skills and has demonstrated poor awareness of the traits required for a CEO. The answer was wholly generic with no direct application to MGR.	The candidate has demonstrated sound judgement in identifying several suitable traits that are related to the future CEO role at MGR. The answer is presented in the correct format.	The candidate has shown strong commercial awareness in identifying traits that would be suitable and specifically related to the future CEO role at MGR. The answer is presented in the correct format.
	0	1	2

(b)(i) REPORT

To: John McPherson

From: External Consultant

Date: XXXX

Subject: Non-Executive Directors – role, value, and compensation

Introduction

This report will first assess the role and value of recruiting independent non-executive directors (NEDs) to a new interim board for MGR and will then discuss the proposed NED remuneration package.

The roles of NEDs

Jenny Wu has recommended the formation of an interim board comprised of four NEDs and three family members (John, Robert and Fiona). She has suggested that this would provide an excellent opportunity for MGR to establish a unitary board of directors prior to listing in 2025.

To assess the role that NEDs could perform on the interim board, the four general roles of NEDs can be considered.

Strategy role

NEDs may challenge any aspect of strategy they see fit and offer advice or input to help to develop successful strategy. John has identified two strategic objectives for MGR as a listed company, and therefore new NEDs may challenge these objectives to ensure that the right strategic path is set for the newly listed MGR. NEDs will bring strategic experience from other organisation, which could assist and inform the existing strategy of MGR over the following two-year period.

Scrutinising role

The independence of NEDs is important as NEDs are required to hold executive directors to account for decisions taken and company performance. For the interim board the NEDs will be overseeing the plans for MGR. They will therefore be scrutinising the results and performance of MGR and its two operating divisions. This may feel uncomfortable for Robert and Fiona, as they have not previously felt or experienced this scrutiny from external, non-family members performing as directors.

Risk role

NEDs ensure the company has an adequate system of internal controls and systems of risk management in place. Although MOG and MPS have operated for many years, it is unclear as to the level of risk management and control within MGR. This may have previously been based on John's assessment,

whereas NEDs will provide a more independent assessment, based on maintaining the interests of shareholders. The new listed company will also present new and additional risks for the new board to consider.

People role

NEDs oversee a range of responsibilities relating to the management of the executive directors of the board. This typically involves issues concerning the appointment of directors to the board and the remuneration of executive directors. As there are currently no NEDs on the board of MGR, and given that the board comprises only John, Robert and Fiona, there would therefore appear to be no board committees, so the appointment of NEDs will allow for future committees to be established.

The value of NEDs on the proposed interim board

John has never recruited NEDs as he felt that this would slow the decision-making process, which he believes is much quicker between family members. The appointment of new independent NEDs, however, should improve the decision-making process as the interim board would have four new members with external experience that could help MGR produce better decisions.

John's view that NEDs have "no idea how to run a recruitment company" is not correct. A NED role is to be a board member and to ensure that the company is appropriately directed and controlled – the executive directors, i.e. Robert and Fiona, are the board members responsible for running the operations of MGR and its divisions.

The current board of MGR is small, with John as the Executive Chair and Robert and Fiona as the respective MD's of the two operating divisions. Although experienced in the recruitment sector, the board is not diverse. New NEDs would create a more diverse board, with different ideas, skills, and perspectives, and from a range of sectors.

Although MGR does not require external investors at this point, MGR will need to be attractive to investors if John wishes to sell a 49% share of MGR. Therefore, a board containing NEDs for an interim period may be appealing to investors and provide reassurance that MGR has been appropriately established and directed.

John has already expressed his desire to retire in 2025, and he will have been a key support for both Robert and Fiona in running their divisions. The introduction of NEDs may provide new ideas and additional guidance and

support to Robert and Fiona, and it may be beneficial for them to get more exposure to external directors, rather than their father.

Operating as a unitary board – with a majority of non-executive directors – will ensure that MGR improves its governance systems. This will be beneficial for MGR as it plans on becoming a listed company in 2025, and this would ease the governance transition from being a private company.

Marking scheme

- *Up to 2 marks per well explained and applied point relating to the role of NEDs. Points should be related to the scenario and limited to 1 mark per point for limited or no application. Up to a maximum of 8 marks and capped at 3 marks for generic points.*
- *Up to 2 marks per well explained and applied point for the value that NEDs may bring to the proposed interim board for MGR. Up to a maximum of 8 marks.*

Credit should be awarded for relevant points even if the candidate does not distinguish between the two parts but produces a single combined answer. However, credit should not be awarded twice for the same point.

Maximum of 14 marks in total for 2(b)(i)

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 role and value of non-executive directors to an interim MGR board.	The candidate has failed to demonstrate any evaluation of the role and value of non-executive directors.	The candidate has attempted to assess the role and value of non-executive directors, but the points were not sufficiently relevant to the interim board for MGR.	The candidate has made a reasonable attempt of assessing the role and value of non-executive directors, and identified points that are relevant to the interim board for MGR. The answer is presented in the correct format.	The candidate has provided a clear assessment of the role and value of non-executive directors and the points covered clearly focus on the situation faced by an interim board for MGR. The answer is presented in the correct format.
	0	1	2	3

(b)(ii) NED remuneration package

A remuneration package has been proposed to incentivise the new NEDs on the interim board to perform in the best interests of MGR.

NEDs should, however, be independent, and should not be rewarded with excessive or performance related pay, as this could threaten their independence as they may make decisions which are in their own personal interests and not in the best interests of MGR.

Base salary

The base salary of \$200k appears excessive for a NED role, as NEDs are not full-time roles in the business and their primary role is to prepare and attend for board and committee meetings. This level of base pay is significantly more than the average fees paid to NEDs in Westland's largest listed companies. They will also be required to attend other events during the year, for example board away days or visits with stakeholders, but this should not be significant. NEDs should be paid a fee rather than a salary, which is a standard and transparent fee for all NEDs, although additional payments may be made for committee membership and chairing responsibilities.

Bonus

It is proposed that NEDs are paid a bonus based on the profit performance of MGR in 2024. As mentioned above, this may influence NEDs decision-making if they seek to maximise a bonus payment. It is fair for executive directors, who are not considered to be independent, to receive bonuses based on performance, as this aligns their interests with those of the shareholders, but NEDs should remain outside of this arrangement.

Shares

Once MGR is listed it is proposed that NEDs are provided with a share award in 2025. This remuneration may again cause a NED to make decisions in their own interest rather than what is best for MGR. NEDs on the interim board may feel that a future decision may not maximise the value to the current shareholders and therefore propose other options for the future of MGR. However, if there was an incentive to continue with a listing as NEDs would financially benefit, this could then result in the wrong decision. Companies may sometimes provide share incentives to NEDs as they feel it is appropriate for a NED to have some ownership in the organisation, but the amount should be nominal and not of a level that would be seen to be significant and thereby potentially influencing the NEDs decision-making.

To be effective in their roles, NEDs need to be motivated in different ways to their executive colleagues and too much similarity – as indicated in this

proposed package – may mean that their important scrutiny role is weakened or compromised. If independent NEDs of the right quality and experience can be recruited, they will engage with MGR, and make an active contribution to the interim board, and therefore offer great value and advice to MGR.

Marking scheme

- *Up to 2 marks for relevant points which critically assess the proposed NED remuneration package. Candidate answers must refer to the scenario.*

Possible points could focus on the details of the package proposed by John:

- *The \$200k base salary*
- *The bonus based on profit performance at MGR in 2024*
- *The share award in MGR in 2025*

Maximum of 8 marks in total for 1bii

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
Scepticism skills in challenging, in an appropriate tone, John’s proposal for NED remuneration.	The candidate does not make any challenge to the proposed NED remuneration package.	The candidate has demonstrated a reasonable attempt, using an appropriate tone, to challenge the proposal but fails to fully challenge each component of remuneration. The answer is presented in the correct format.	The candidate has demonstrated excellent professional scepticism in critically challenging John’s proposal for NED remuneration and doing so using an appropriate and acceptable tone. The answer is presented in the correct format.
	0	1	2

(c) EMAIL

To: Fiona Stevens
From: External Consultant
Date: XXXX
Subject: Ethical issues

Hi Fiona,

Further to our recent conversation and receipt of the email that you had received from Edward Berwick, I have addressed below the possible ethical issues arising from the two items covered in this email. This will hopefully help inform your scheduled meeting with Robert.

Item 1 – Asset sale

Robert appears quite open about the proposed asset sale and the need to inform finance, in order that records can be updated. His assertion that the assets are old, have little value, will not be used by MOG, and are currently stored in an office basement, could help justify the disposal at lower than book value.

It is unusual for someone in his position to feel the need to deal with the sale directly, and without any intervention from others, including handing over the payment personally at his meeting with Edward next month. The proposed sales price of \$5,000 contains no further details or breakdown therefore it is questionable as to whether this is a reasonable figure for the purchase of such assets. Although Robert has provided a list of the assets that he is intending to sell, there appears to be no opportunity for this list to be verified, or indeed physically checked.

Edward's review of the asset register shows a carrying amount of \$50,000 for these assets, which is a concern as the proposed sales price is only 10% of the carrying value. This would result in a \$45,000 loss on disposal of non-current assets, and potentially would be recorded in this financial year.

Of potential greater concern is the fact that the purchaser of the assets is the new business of Robert's wife. There is therefore a conflict of interest, and a suspicion that the assets are being sold to a family member at a heavily discounted price.

Robert is an experienced director, and he should therefore adhere to generally accepted ethical and professional principles of behaviour. This includes integrity – being honest in all professional and business relationships – and

objectivity - exercising judgement without being compromised by bias or conflict of interest. His behaviour regarding this item suggests that he is not demonstrating these principles in his dealings with Edward.

Item 2 – New contract

This issue relates to revenue recognition, and it appears that Robert is trying to justify a very aggressive policy of recognition for a new contract. The contract with Cascade Oil has been signed in May 2023 and covers three stages with new positions required for recruitment in December 2023, and March and June 2024. The client will pay at each stage based on the number of positions successfully recruited at that point.

Although there will be 3 payment points by the client there is the opportunity to recognise revenue over the length of the contract based on the work performed at a point in time. However, the search and recruitment process only start three months prior to the required start date. Therefore, for the first stage, positions are required to start on 1st December 2023, so the work will commence on the 1st September 2023, which is after the June financial year end.

Robert suggests that 25% of the contract value should be recognised to reflect the work undertaken in negotiating the contract. Based on the total contract value this would mean that a sum of \$337,500 $((30 \times \$150k) \times 30\%) \times 25\%$ would be recognised in June 2023 for the contract negotiations by Robert in securing the new deal with Cascade Oil. This would be difficult to justify from an accounting perspective. Also, this would not appear to be normal practice and appears to be only suggested for this particular contract and not as a standard change for all future MOG contracts.

There is therefore a suspicion that the reason for the recognition on this contract is that it would enable Robert to earn his revenue target for the year ending June 2023 and subsequently earn his personal bonus.

Robert needs to behave professionally, which includes being compliant with laws and regulations, and needs to act with professional competence and due care, in accordance with all technical and professional standards. His behaviour regarding the revenue recognition on this contract would suggest that Robert is not being compliant and not adhering to relevant accounting standards.

Recommendations

In relation to item 1 – you should inform Robert that a member of the finance team should take responsibility for the proposed asset sale. MOG first needs

confirmation that all the assets listed for sale are no longer required by the division. If they are still required, then no sale should be agreed, and the assets should continue to be used within the business. If the assets are no longer required, finance should provide an appraisal of the assets, including a likely resale value for each asset. This should provide an independent valuation of the assets.

If the valuation is significantly higher than \$5,000 then finance should arrange to sell the assets when reasonably practical to do so. If the valuation is \$5,000 or less, then the sale to Suzie Mac Design Studio could proceed, but Robert should not be involved in the transaction, and finance should arrange directly with Suzie McPherson for the sale of the assets, including issuing an invoice and receiving payment.

In relation to item 2 – you should inform Robert that no revenue will be recognised from the new Cascade Oil contract in June 2023. A change in policy in how MGR recognises revenue on its recruitment contracts should not be based on a single contract. If Robert did believe that there was a justification to change the way revenue could be recognised, then this should first be discussed with the finance team, and then subsequently with MGR's external auditors, if applicable.

You may also wish to remind Robert of his professional responsibility to MGR, and treating Edward with respect, when he rightly expresses concerns and requests further information from Robert.

I appreciate that this is a sensitive matter, but if you require any further advice or guidance, then please feel free to contact me.

Regards
External Consultant

Marking scheme

Up to 1 mark for relevant points identifying and discussing the ethical issues in item 1. To a maximum of 4 marks.

Up to 1 mark for relevant points identifying and discussing the ethical issues in item 2. To a maximum of 4 marks.

Up to 2 marks for a suitable recommendation for Fiona in relation to item 1.

Up to 2 marks for a suitable recommendation for Fiona in relation to item 2.

Maximum of 10 marks in total for 2c.

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 identifying the relevant ethical issues for consideration and action by Fiona.	The candidate has failed to identify and analyse the ethical issues arising from the email received by Fiona.	The candidate has referred to certain ethical concerns, but the points raised lack depth and do not sufficiently address the ethical issues for consideration by Fiona.	The candidate made a good attempt at addressing the ethical issues arising from the two items in the email received by Fiona and the implications for the organisation. The answer is presented in the correct format.	The candidate has clearly identified the ethical issues arising from the email received by Fiona and the implications for the organisation. The answer is presented in the correct format.
	0	1	2	3