

# Advanced Performance Management (APM) March/June 2022 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

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## General comments

This examiner's report should be used in conjunction with the published March/June 2022 sample exam which can be found on the [ACCA Practice Platform](#).

In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the [ACCA Practice Platform](#), reviewing the published answers alongside this report.

## Format of exam

The examination comprised two sections, A and B. Section A consisted of one compulsory question for 50 marks in total. Section B consisted of two compulsory questions for 25 marks each. Four professional marks were available within Section A for the format, style, and structure of the discussion of the candidate's answer which should be written as a report.

## Section A Question 1 – Calavie

APM March/June 2022 (21/22 syllabus) 1 of 3

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**Exhibits**

- 1. Company information
- 2. Divisional performance measurement
- 3. BCG analysis
- 4. Management information
- 5. Appendix 1: Divisional performance
- 6. Appendix 2: BCG analysis

**Requirements**

- Requirements (50 marks)

**Response Options**

- Word processor
- Spreadsheets

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

1. Company information – the background, organisation structure and current position of the company: Calavie Manufacturing (Calavie).
2. Divisional performance measurement – details of the overall, strategic performance indicators for assessing the performance of Calavie's divisions and the work required by the CEO on this area.
3. BCG analysis – instructions from the CEO regarding how the wants a BCG (Boston Consulting Group) analysis prepared by a consultant to be applied to Calavie's divisions.
4. Management information – explanation of the current information systems used by the divisions and the advice requested by the CEO for the board on a good approach to management information.
5. Appendix 1 – financial performance data for the divisions for year ended 30 June 20X5.
6. Appendix 2 – the consultant's BCG analysis.

This information should be used to answer the question requirements within your chosen response option(s).

**Requirements (50 marks)**

It is now 1 September 20X5.

Write a report to the board of Calavie to respond to the CEO's instructions for work on the following areas:

- (i) divisional performance measurement (15 marks)
- (ii) the BCG analysis (15 marks)
- (iii) management information at Calavie (12 marks)

Professional marks will be awarded for the format, style and structure of the discussion of your answer (4 marks)

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## Format of the question

This 50-mark question was based around a manufacturing company, Calavie, that produced household refrigerators. The company was made up of three divisions, one of which made basic refrigerators, one made high-quality refrigerators, and one made a variety of hardware and software systems which linked the refrigerators to home management systems.

The requirements of this question were split into three parts. The first part required candidates to evaluate divisional performance based on prescribed metrics, the second examined the usefulness of the Boston Consulting Group matrix (BCG), and

the final part considered the characteristics and usefulness of management information.

### **General comments**

Many candidates scored well on individual sections of this question but appeared to struggle to score well on all three in one script. It is recommended by the examining team that candidates prepare for questions, by reviewing questions from previous diets, that cover multiple topics, noting that questions are based on application and are not simply knowledge based. As a result candidates should look to justify the use of models in relation to the scenario i.e. why is something important in this particular situation, as opposed to simply discussing features of a model or just advantages and disadvantages.

### **Part (i) – 16 marks**

**Write a report to the board of Calavie to respond to the CEO's instructions for work on the following areas:**

#### **(i) divisional performance measurement**

This required candidates to evaluate the performance of all three divisions using return on investment (ROI) and residual income (RI), including an analysis of the different ways both measures could be calculated given the additional information in the scenario, namely head office costs, expenditure on research and development, and brand-building costs. Finally, candidates were asked for an evaluation of the appropriateness of ROI and RI for divisional performance measurement.

Most candidates successfully attempted both ROI and RI for all three divisions. A minority of candidates did not seem to be able to do this correctly, but it was pleasing to see that most at least knew the basic formula for each. It candidates noting that application of ratios (and other measures) is an important part of performance measure and therefore they should be comfortable with those learnt at the exams at underpinning levels and particularly those examined on APM in previous diets.

However, a significant number of candidates only calculated ROI and RI once for each division. Given the exhibit stated that the CEO wanted an analysis of the different ways that these could be calculated it would have been a sensible approach to demonstrate the different ways e.g. excluding the costs that were not controllable by the division. Credit was awarded to those candidates who simply discussed the different approaches, but the examining team advise that candidates, where possible, show the effect of changes to calculations to give greater depth to written answers.

The final part of this question was attempted relatively well by candidates. Some candidates did not attempt it at all, however. It is advised that candidates clearly identify, and attempt, all parts of the requirement as this was a relatively straightforward area requiring an analysis of the advantages of both ROI and RI. Candidates should remember that the focus of APM is application and as such, although some marks were awarded for explaining the advantages and disadvantages, to be able to discuss the appropriateness candidates needed to consider these in relation to the three divisions.

## Part (ii) – 18 marks

Write a report to the board of Calavie to respond to the CEO's instructions for work on the following areas:

### (ii) the BCG analysis

In this part of the question candidates were required to assess how the BCG could be used to assist generally in performance management and to recommend KPIs, based on the BCG analysis given, for each division.

Similar to part i) above there is little benefit here describing the BCG. Several candidates wasted valuable time explaining how the BCG worked i.e. identifying market share and market growth for each division, and some went on to state where each division would be placed in the matrix and why, even though this information was given in the scenario.

Phrases such as 'how it could be useful' should encourage candidates to discuss the benefits to the company of using the model. Each of the divisions in the scenario face different conditions and once analysed, using the BCG, need to have different objectives and as such be appraised using different metrics. Some candidates clearly understood this, and comfortably discussed the appropriateness of the BCG, but many appeared to only know what the model was and how it worked but did not demonstrate an understanding of why a company would want to do this.

The second part of part ii) required justified KPIs for each division. Candidates should be prepared to discuss why a recommended KPI is suitable for a division to enable them to score well here. Many KPIs could be discussed and therefore it is the explanation that demonstrates a solid understanding here as opposed to the long list of measures with no discussion that were produced by some candidates. It should also be noted that the KPIs should be linked to the BCG analysis. For example, one of the divisions was classified as a cash cow. It would thus be sensible to assume that the company wishes for this division to generate large net cash inflows (at least in the short term) and as such a suitable KPI could be net operating cash flow for the period. Many candidates simply listed generic KPIs.

## Part (iii) – 12 marks

Write a report to the board of Calavie to respond to the CEO's instructions for work on the following areas:

### (iii) management information at Calavie

This part was based around a proposed redesign on an existing management information system. Candidates were required to explain the general aims of management accounting information at different levels of the organisation, and then advise on how applying the qualities of good information can improve the communication from the company's divisions to the company's executive.

The first part of the requirement was asking for an explanation of the aims of the information. Many candidates however discussed the types of information required/used at the different levels of the organisation e.g. "...at the strategic level managers would require information that was externally focused and long-term." It is advised that candidates spend time in the examination reading the requirement carefully and then considering **exactly** what has been asked for as opposed to trying to bring into their answers theory they have learnt whether or not it specifically applies. There are few marks at APM for simply dumping knowledge, and obviously no marks when not applicable.

The requirement wanted candidates to explain in what ways the information is used e.g. it is used to appraise performance at different levels, or it assists in creating the long-term strategic plans etc.

In the second part of the requirement candidates were firstly required to explain the qualities of good information and then explain how it can improve communication. Many candidates correctly remembered the qualities of good information from underpinning exams (accurate, complete etc.) but some simply listed these with no explanation of what they meant or how they could be used. Again, candidates at this level must demonstrate understanding by writing more than a few words or a simple list, and they must also apply this knowledge to the scenario. Very few candidates discussed how the information helped with communication. Answers on previous diets can be used to give guidance to candidates, and these should be reviewed as to the level of depth required for answers, but they also provide examples of approaches for application. Here, if candidates were unsure how qualities of good information help with communication, they could start by considering what would happen if the information was of poor quality. For example, if the information was not provided in a timely fashion, then late information would be communicated leading to inappropriate decisions being made.

Overall, it was the application that made the difference between those candidates scoring well and those who did not. There was also evidence of candidates writing very brief comments as opposed to expanding their answers to give justifications and to demonstrate their ability to apply the theory.

It should be noted that the presentation of the answers was generally good with most scoring three or four out of four of the professional marks.

## Section B

### Question 2 – Vaa

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Exhibits

- 1. Company information
- 2. Transfer pricing
- 3. International acquisition

Requirements

- Requirements (25 marks)

Response Options

- Word Processor

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

1. Company information – the background, industry and operating conditions of the company, Vaa.
2. Transfer pricing – details relating to the problems of setting transfer prices between the R and S divisions.
3. International acquisition – information about the possible acquisition of a subsidiary in Teeland and the factors to be considered when determining international transfer prices.

This information should be used to answer the question requirements within the response option provided.

Requirements (25 marks)

(a) Advise Vaa on the criteria for designing a formal transfer pricing policy for its two divisions in Essland. (9 marks)

(b) Explain the disadvantages for Vaa of using market-based transfer prices. (8 marks)

(c) Advise Vaa on the factors it should consider when setting international transfer prices in relation to the potential acquisition in Teeland. (8 marks)

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### Format of the question

Vaa was about a company which has had some difficulty with transfer pricing between two of its divisions - R and S – and is considering expanding into another country (Teeland).

### General comments

The question was, generally, answered quite badly. Whereas the specific reasons for this will be discussed within the individual parts of the question, in general candidates seemed at times unclear on the principles underlying transfer pricing and the operation of it as detailed in the question's scenario. Often, responses were very descriptive and not aligned or applied to Vaa, despite there being a great deal of evidence in the scenario of the difficulties and challenges that Vaa was encountering.

The lack of application, and lack of justification for the suggestions made in any application provided, has been one of the main areas of concern for the APM examining team in general over the last few years as these areas, along with an ability to evaluate a situation/scenario, are the key foci of most questions in the APM examination. Several candidates, for example, gave lengthy definitions of types of transfer price to show that they understood that there were various ways that it could be done but did not appreciate that this is not what was asked for in any part of the question and, in any case, would not have gone far by way of evaluating which of those might have been appropriate for, or offered any justification as to what might be best for, Vaa. It is always helpful for the candidate to demonstrate to the examiner that they understand the terms that are being used in the question but in this case, when the topic area is one that is core to the exam which underpins APM, it is assumed that candidates know what transfer pricing is and there is no need to offer definitions for terms like this that are generally understood.

The essence of APM is application, not explanation or definition. The question, in all its parts, seeks to test the candidates' ability to apply the principles and practices of different areas and aspects of transfer pricing, or of transfer pricing in general, to Vaa. Candidates would definitely benefit from asking questions such as: *“how does this apply to this company in its current situation?”* rather than, as seems to be the case currently, asking: *“what can I remember about transfer pricing and in which part of the question should I put this information?”*

There was also a general impression that candidates had not allowed enough time to answer the question. However, this is based on the fact that most responses were too brief to address the demands of the question and it is difficult for the marking team to be definitive about why this might be the case. The brevity of the responses may have been due to candidate uncertainty, for instance. It is possible, however, that this question was attempted as the last one out of the three for many candidates and they may not have allowed the appropriate time to answer the question fully. Time management is one of the key skills of sitting any examination and candidates should have set aside approximately 45 minutes to answer a 25-mark question such as this one.

### **Part (a) – 9 marks**

#### **Advise Vaa on the criteria for designing a formal transfer pricing policy for its two divisions in Essland**

This part of the question tended to be quite poorly done and this was a significant concern for the examining team as the criteria for a formal transfer policy should be well known to candidates.

One of the most significant errors in this part of the exam was that a large minority of candidates did not appear to understand what the criteria were and those candidates instead offered descriptions of different types of transfer pricing policy, such as marginal cost plus, market based etc. These answers tended to offer a list of different techniques and describe those techniques. The only response and guidance that the examining team can offer in a situation like this is to plead with candidates to read the question and spend time understanding its requirements. Candidates will find that time spent ensuring the requirement is fully understood is very rarely wasted time. As an additional check, however, it is impossible for the examining team to imagine a scenario in the APM exam where the correct answer would demand a list and definitions of various terms. As indicated above, the essence of the exam is on justification, application and evaluation, and not on identification and explanation which are much more suited to the levels of study below APM. If a candidate feels that such a response is the right one, they should, as a further check, go back and read the requirement once again.

Some of the responses which did identify the main criteria did not develop those criteria and/or did not apply those criteria to Vaa's situation. For example, a typical response that took this approach might indicate: *“divisions should have autonomy in negotiating transfer prices”* and then go on to discuss another part of the criteria.

Whereas this type of response does correctly identify one of the main criteria, and would receive merit accordingly, it does not either develop the point or indicate how this relates to Vaa. A better response would have said: *“Divisions should have autonomy in negotiating transfer prices. Such an approach would help ensure that managers are motivated to act in the best interests of their divisions. However, R and S both appear to already have autonomy to negotiate the transfer price and it is clear that R is unhappy with the current price agreed. It is evident, therefore, that other criteria may need to be considered for setting an appropriate transfer price as using autonomy alone is currently leading to an unsatisfactory situation for R. The problem of relying on autonomy alone as a criteria is also highlighted by head office having to intervene in these discussions to impose a transfer price. This is never a desirable situation and suggests that much time is being wasted in Vaa.”*

The response detailed hopefully demonstrates how candidates might think, and express their responses, not only in terms of initial identification and explanation, but more importantly in application and evaluation. Although the second response detailed above is of course longer than the mere identification expressed in - *“divisions should have autonomy in negotiating transfer prices”* – the real difference between them is that two significant questions have been asked following the identification. Those questions are – *“why might autonomy be good”* and *“is it working in Vaa?”* These questions are, to some extent, situation specific but, as a matter of principle, it is a good idea to think in terms of 1) identify/explain (this part is brief), 2) apply to scenario, 3) evaluate if it is likely to be/is good or bad and justify why. Part 3 is probably the longest part of the answer. If candidates can achieve this balance in their responses, they will be successful not only in transfer pricing questions like this but in the entire APM exam.

So, in summation, the best way to answer this part would have been to:

- a) Identify and explain the main criteria in transfer pricing (probably four)
- b) Assess individually why each of those criteria is desirable
- c) Relate/apply each of those criteria to Vaa’s specific situation

### **Part (b) – 8 marks**

#### **Explain the disadvantages for Vaa of using market-based transfer prices**

This part of the question was also quite poorly done and tended to be the briefest in terms of responses offered. This was concerning for the examining team as there was very clear information in the scenario as to why there might be problems with using a market-based transfer price.

Firstly, we have to repeat the call issued above for candidates to please read the requirement and answer the question asked. The requirement clearly asked for an explanation of disadvantages and many candidates spent time offering descriptions of market-based transfer pricing and/or offering a list and description of some of the advantages. Often, an overall evaluation is asked for but candidates have to be aware when only the advantages or disadvantages of a particular technique are being requested, as was clearly the case here. Responses that focus on advantages or



broad description do not lose marks but it is clear that those candidates have wasted their time discussing areas that are not part of the requirement and cannot be awarded any marks for them.

Some candidates also spent time discussing what Vaa should do to both correct the situation and to enhance its business performance. If the question is not asking for improvements, then it is best not to try to offer them as full marks could be scored here by focusing on the disadvantages only. There will always be cases where suggestions for improvement arise automatically from good analysis and evaluation of a problem/disadvantage but it is best to focus on the direct requirement of the question. Candidates also often offer suggestions as to how a business can improve performance and how it should develop strategically but such requests are usually not part of the requirement in the APM exam and were certainly not part of the requirement of this part of the question. Again, the best policy is to focus on what the requirement is specifically asking.

There also appeared to be misunderstandings here for many candidates with regards to what a market-based transfer price actually was. Often, candidates were offering definitions that related to “cost plus pricing” or seemed to be under the impression that divisions R and S were not part of the same company. It is difficult for the examining team to offer any advice in this situation beyond pleading with candidates to read the requirement and to be fully conversant with the models and techniques that are used in this exam.

As with part a) above, many candidates mentioned some relevant areas but did not further develop them. For example, many candidates would say: *“there is currently a recession in Essland”* which is certainly a relevant generic point but such responses could have been enhanced had they developed them further by considering the effect on Vaa. So, for example, a better developed response would have said: *“There is currently a recession in Essland which may affect demand for electronic goods and may lower the price of them. This instability would make establishing a transfer price between the two divisions problematic. Further, we do not know how long the recession is likely to continue, or if it is likely to lead to peaks and troughs in demand, which means that the instability could continue for quite a long time and further exacerbate the difficulty in establishing a transfer price”*.

As with the observation in the commentary on part a) above, the only real difference between the second response here and the first is that the second response has asked – *1) what does the recession actually mean and 2) how might its nature affect an attempt to agree a market-based transfer price?* and answered accordingly.

So, in summation, the best way to answer this part would have been to:

- a) Identify some of the main disadvantages of market-based transfer pricing
- b) Express why the area identified is a disadvantage
- c) Explain how that disadvantage would specifically affect Vaa’s situation

### Part (c) – 8 marks

#### **Advise Vaa on the factors it should consider when setting international transfer prices in relation to the potential acquisition in Teeland**

This part was generally well done and certainly saw the highest marks awarded of any of the three sections of this question. This is primarily because most candidates correctly identified some of the main factors that were relevant in relation to the setting of international transfer prices. This section was also noteworthy for having very few responses which either did not answer the question or which offered superfluous information about another area. Most responses were still too brief which, as indicated in the introductory section, may have been due to candidates being under time pressure or not being able to fully develop their responses.

Many responses would identify relevant areas to the scenario, such as tax, potential import tariffs and exchange rates. Many responses also offered some development of these points and candidates would often highlight: *“the tax rate, at 16%, is lower in Teeland than it is, at 25%, in Essland. This may help Vaa lower its overall tax bill.”* A response of this nature helps identify the relevant factor and starts to highlight its specific relevance but it should be further developed to fully help Vaa be aware of the significance of the factors that it needs to consider.

For example, one way of developing this would have been to say: *“The tax rate, at 16%, is lower in Teeland than it is, at 25%, in Essland. This gives Vaa an opportunity to lower its tax bill by transferring goods from S division in Essland to T division in Teeland at a relatively low rate. However, Vaa also has to consider if it is both legal and ethical to try to minimise its tax bill in this way and Vaa should also be aware that the government in Teeland is seeking to protect local industry and may look to find ways of combatting this practice. Additionally, Teeland is one of the largest producers of electronic goods in the world and, even with a low transfer price and lower taxes, the overall effect of this very competitive environment may mean that any potential advantage from a lower tax rate is lost through the price pressure in a competitive market.”* As with the examples offered above in parts a) and b), the only additional thought process that has gone into the suggested response is: *1) should minimisation of tax be a guiding principle when we are considering a transfer price and b) what might the effect be of this, given the specifics of Vaa’s situation?*

Many candidates did adopt this approach, or a very similar approach, when answering this part of the question and this explains why it scored the highest marks in this question overall. The main part that was lacking, however, even in the better responses, was a development of the factor identified and in how it might affect Vaa’s situation.

So, in summation, the best way to answer this part would have been to:

- a) Identify the relevant factors
- b) Explain why each factor is relevant
- c) Advise as to how the individual factors are likely to affect Vaa (this is likely to be the longest section of the answer).

## Question 3 – Breac

APM March/June 2022 (21/22 syllabus)

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**Exhibits**

- 1. Company information
- 2. Manufacturing agreement
- 3. Value-based management
- 4. Appendix 1

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

1. Company information – the background, mission statement and structure of the company, Breac.
2. Manufacturing agreement – details of a manufacturing agreement struck between Breac and another company, Gowan.
3. Value-based management – information about the possible introduction of value-based management (VBM) at Breac.
4. Appendix 1 – an example of Breac's strategic performance report.

This information should be used to answer the question requirements within the response option provided.

**Requirements (25 marks)**

It is now 1 September 20X5.

(a) Assess the problems which may be faced by Breac when developing a service level agreement (SLA) with Gowan. (10 marks)

(b) Evaluate how the introduction of VBM would affect the current measures in the strategic performance report prepared by the SBUs and recommend, with justification, as to whether VBM should be introduced at Breac. (15 marks)

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### Format of the question

Breac was about a company which sub-contracted part of its sporting goods manufacture to another company (Gowan). Breac distributed the finished products through its global retail outlets. Breac was experiencing some difficulties in its relationship with Gowan, and those difficulties led to Breac seeking to establish a formal service level agreement (SLA). The second part of the question was concerned with the potential introduction of value-based management (VBM) in Breac.

### General comments

The question was, generally, answered badly. Whereas the specific reasons for this will be discussed within the individual parts of the question, in general candidates seemed at times very unclear as to what VBM was and therefore found it very difficult to apply it to Breac. This is very significant as it is an important part of the syllabus but also, in the specific case of this question, the part on VBM accounted for 60% of the available marks. Answers also tended to be quite general, descriptive and lacked application to the scenario. This was consistent across both parts of the question, even though there was a great deal of information in the scenario that was relevant to difficulties in the relationship between Breac and Gowan and on the measures that Breac was currently using which could be considered within the change to a VBM approach.

Candidates spent time in this question offering suggestions, in both parts, as to what Breac could undertake to enhance its business performance. There has been an increasing trend to offer this kind of commentary in the APM exam and, on occasion, this can be an appropriate response. However, it is always best to answer the question that has been asked and neither part a) nor part b) of this question asked for an analysis as to how Breac might improve its performance and/or operations.

Part a), for example, had many instances of candidates suggesting that Breac partner with different companies, undertake all its own production in-house or adopt TQM to

enhance its processes. These are all suggestions which are irrelevant to the question asked and it is incumbent upon the candidate, if they feel the introduction of such a practice or approach is relevant to the question asked, to strongly justify the case for it. In a similar manner, candidates would often suggest, in part b), for example, that Breac should expand its marketing spend to enhance its brand awareness and use target costing to help enhance its market share. If discussed in the light of a VBM approach, these developments could be considered relevant as part of an overall evaluation of Breac's current measures and how they could be enhanced. However, unless the developments are specifically linked to the question asked, these suggestions and comments appear as though they are answering a different question as they do not address the requirements of the question asked.

The lack of application, and lack of justification for the suggestions made in that application, has been one of the main areas of concerns for the APM examining team in general over the last few years as these areas, along with an ability to evaluate a situation/scenario, are the key foci of most questions in the APM examination. Several candidates, for example, gave definitions of what an SLA is and of what VBM was though, in the case of the latter approach, these definitions were often incorrect and seemed to ignore the fact that there was some description of VBM in the scenario. It is helpful for the candidate to demonstrate to the examiner that they understand the terms that are being used in the question but the amount of marks that are available for defining an SLA or expanding upon the definition of VBM that has already been given, are always going to be minimal.

As has been well stated before, the essence of APM is application, not explanation or definition. The question, in both its parts, seeks to test the candidates' ability to apply the principles and practices of the different areas of the SLA and VBM to the specifics of Breac's situation. Candidates would definitely benefit from asking questions such as: *"how does this apply to this company in its current situation?"* rather than, as seems to be the case currently, writing all that they have learned/memorised about SLA and VBM and using that to answer the question.

A majority of candidates did not fully answer this question. This gave the marking team the initial impression that candidates had not allowed enough time to answer the question. However, it is impossible for the marking team to be definitive about this and the brevity of the responses may have been due to candidate uncertainty, for instance. It is possible, however, that this question was attempted as the last one out of the three for many candidates and they may not have allowed the appropriate time to answer the question fully. Time management is one of the key skills of sitting any examination and candidates should have set aside approximately 45 minutes to answer a 25-mark question such as this one.

## Part (a) – 10 marks

### Assess the problems which may be faced by Breac when developing a service level agreement (SLA) with Gowan

This part was generally quite well done as most candidates correctly identified, from the scenario, some of the main issues that were causing difficulty between the two companies. Candidates were less able to fully develop these points, however, or make them relevant to the specifics of an SLA. It was common, for example, for candidates to identify future problems with the business relationship if things were not agreed and the marking team agreed that such observations should be given credit as they identified the potential adverse consequences of an SLA not being agreed. Strictly speaking, however, such responses did not address the specifics of the requirement.

With regard to the lack of development of their responses, candidates would sometimes say: *“there is a problem with identifying which company is responsible for the goods being faulty and this may be a problem in the SLA.”* Such a response identifies the nature of the problem well but does not relate it to the specifics of the situation and therefore does not show the potential scale of the problem of this for Breac or for agreeing the SLA. A better developed response might have said: *“There is a problem in identifying which company is responsible for the goods being faulty. This has come about because Gowan produces the goods and Breac adds certain significant features to produce the end product. In terms of the SLA, Breac must ensure that the goods that it receives are defect free and should either look for evidence from Gowan’s own quality control systems that this is the case or, if, for whatever reason, that is not possible then Breac has to impose its own quality control measures on Gowan before the goods leave Gowan’s factory. This would ensure the quality of the product Breac receives but, in terms of the SLA, would impose quite strict and intrusive measures on Gowan which Gowan may find unacceptable. This could be a potential barrier to agreeing the SLA.”* The way the answer has been constructed in the second response here has essentially developed what the nature of the problem is with regard to the faulty goods and then, through the mechanism of agreeing an SLA, has considered how it might be possible for Breac to ensure, formally, that it is receiving goods that are not faulty. The point of the faulty goods has therefore been fully applied to Breac in the context of the question’s requirement of the SLA and further questions in the model response have been asked around the areas of: 1) *why are the faulty goods a problem* and 2) *how would that problem be dealt with in a formal agreement like an SLA and what difficulties might that cause?*

One of the other areas where candidates could have enhanced their responses here is by not responding to the requirement by using brief bullet points as the totality of their responses. Generally, bullet points tend to present conclusions and, in this exam where the focus is on analysis, evaluation, and justification, the marking team really wants to see how the bullet point has been arrived at. The format of the model response detailed above, for example, is in the format of continuous and developed prose and this style tends to give both a professional appearance to any response but is also the correct style for demonstrating analysis and evaluation. Bullet pointed answers tended to offer a brief identification of points only and, unless specifically

asked to solely identify, without justification, certain things (which is unlikely in any exam at this level) then candidates should avoid using them if at all possible. Responses structured in this way would score some marks if the points made are relevant but they are unlikely to enable candidates to achieve a Pass level as the vital aspects of justification and evaluation will not be present.

So, in summation, the best way to answer this part would have been to:

- a) Identify the area that could be a problem re the SLA
- b) Explain why it is/could be a problem
- c) Assess the extent to which it is a problem – and how - for Breac in trying to develop and agree the SLA with Gowan

### **Part (b) – 15 marks**

**Evaluate how the introduction of VBM would affect the current measures in the strategic performance report prepared by the SBUs and recommend, with justification, as to whether VBM should be introduced at Breac.**

This part of the question was very badly done, primarily because it was clear that many candidates did not know what VBM was. Some candidates thought it was TQM, some thought it was the 3Es of economy, efficiency, effectiveness, some thought it was the 5Ss methodology of a lean approach and others answered as though it were a costing system akin to ABC. Whether a question is asking candidates for a straightforward or more challenging application of a technique, if the candidates do not understand the basics of the technique or approach then they are not going to score well. The examining team did reflect on why this might be the case and it is difficult to find any logical reason beyond candidates not being as prepared as they could have been. VBM's place in the syllabus is clear and it has been part of the syllabus of the APM exam for many years.

Of those who did have an understanding of VBM, it was clear that many candidates did not have a full appreciation of what was involved and that they could do little more in this question than offer a definition of VBM, which was given in the scenario, and then effectively mis-read the question to offer an analysis as to whether Breac's strategic performance report addressed its aim and objectives. This was not the question's requirement and such responses answered a very different question to the one asked.

Some candidates did appreciate that the central idea of VBM is the ability of the entity to earn equal to, or above, its cost of capital. However, several of those candidates then suggested that Breac should replace all the measures they currently have with the sole measure of EVA™ or some other measure of economic profit. Such responses, whilst correct in identifying the overriding principle of a VBM approach, failed to recognise that, under VBM, it is the activities and cost drivers which lead to value being enhanced or reduced that should be measured in addition to the economic profit.

Several candidates focused on specific areas detailed in the performance report and made suggestions as to alternative measures that could be introduced in the areas of

Manufacturing and Marketing. However, these alternatives were neither linked nor justified in terms of a VBM approach. These candidates, and most other candidates, did not seem to fully appreciate what the question was asking which was, at its core, quite straightforward: *if the company adopted VBM, would it continue to measure the areas that it currently does? If so, why, and if not, why not?* As the question asked of candidates was to “evaluate”, there was also considerable scope for candidates to introduce – and justify – other performance measures if they felt those measures to be more appropriate. However, at the core of the question had to be an understanding of what VBM was and where its main focus was and most candidates did not articulate this in their responses.

Some candidates who did try to relate the performance report to a VBM approach did not develop their responses fully enough. For example, they would say something such as: *“marketing spend is not a measure of value and so Breac should not use this measure.”* This is correct but the response does little more than identify the lack of appropriateness of the measure, it does not offer justification or relate it to the specifics of Breac’s situation. A better response would have been: *“measuring marketing spend alone would give no indication of the return on that spend and hence would give us no indication as to whether that spend had created or destroyed value. If Breac was able to measure this spend alongside any enhancement in revenue, it could be viewed that one activity had had an effect on another and the measure could be seen more as a return on an expense rather than just an expense. As Breac is already measuring marketing contribution to revenue, it would seem that this relationship between spend and return on that spend is already being measured. To also measure marketing spend on its own, therefore, is, at best, unhelpful for Breac and could potentially be damaging if Breac has a Marketing manager who seeks to increase their budget on an annual incremental basis. Breac should therefore desist with this measure of marketing spend.”* The model response detailed above here has developed the previous point by further applying the principles of VBM to the measure and then applying the measure to the specifics of Breac’s situation. As suggested above, this is an approach that we would suggest candidates adopt with regard to every question they come across in the APM exam: identify, evaluate and relate to the specifics of the company’s situation.

Many candidates also did not offer a conclusion as to whether Breac should adopt a VBM approach or not. This was requested in the requirement and is something which should be straightforward and based on a summation of the points made in the main body of the answer. There is neither a correct nor incorrect definitive answer as to whether Breac should adopt VBM or not, only that the recommendation made should be consistent with what has preceded.

So in summation, the best way to answer this part would have been to:

- a) Explain the basic measure that underpins VBM
- b) Assess whether each measure in Breac’s performance report would be helpful in a VBM approach
- c) Evaluate those measures in the light of the specifics of Breac’s situation

- d) Suggest and justify other potential measures (if appropriate – this part is not necessary to score full marks, but some candidates may feel it helps answer the question)
- e) Offer a conclusion as to whether Breac should adopt VBM or not