

# Examiner's report

## P5 Advanced Performance Management

### March 2017

#### General Comments

The examination paper comprised two sections, A and B. Section A consisted of one compulsory question for 50 marks in total. Section B consisted of three optional questions for 25 marks each from which candidates were required to answer two questions.

The majority of candidates attempted their allocation of three questions and there was little evidence of poor time management in terms of completing the paper. Question 3 was the most favoured choice in section B.

We would strongly advise that candidates use the examiner's reports and approach articles to ensure that they have the right overall attitude to P5, which is intended to lie at a post-graduate level. Most examinations require a balance of memory work and evaluation/analysis. However, as one goes through the levels (say from F2 to F5 to P5) this balance changes, from pure memory to more analysis. Good candidates distinguish themselves by being aware that if they come to this examination expecting to repeat memorised material, they will probably score only between 20% and 30%. Many candidates have clearly been taught that they should define in their answer any 'jargon' terms in the question requirement. However, they are (usually) wrong to assume that this alone will provide them with a passing answer at P5 which is about application and evaluation in a business scenario.

Therefore, the first step to passing P5 is to have a good grasp of the basic knowledge. However, at this diet, a lack of such knowledge was particularly clear in: 1) question 1(ii), return on capital employed, 2) question 1(iv), the Building Block model and 3) question 2, target costing.

Building upon that knowledge, candidates need to be aware that performance management is an area which, at an advanced level, is dependent upon situation and environment - as exemplified by the need throughout the examination to relate or illustrate points by using the information relating to the business in the question scenario. A good, professional-level answer will go beyond the mere repetition of how a technique works and focus on relating it to the entity's specific environment. As in previous diets, it was very clear to the marking team that those candidates that had grasped the need for this went on to pass the paper.

This issue leads directly to the well-worn advice to candidates to 'answer the question asked'. There are several detailed examples in the discussion below where candidates answered a different requirement from the one asked or simply ignored a part of the requirement (and thus the marks on offer). There was also a disregard for the suggestions contained within the scenario.

#### Specific Comments

##### Question One

This question required the candidates to consider the performance reporting system of a service company and its proposed reward schemes.

The first three parts of the question asked a set of questions around the current indicators used at a

strategic level by the company.

Part (i) requested an evaluation of the links between the mission and the indicators. This required a common P5 task of identifying the mission from the scenario. Candidates were good at repeating the mission statement from the question but few showed appreciation of the structure of the mission and how certain goals were subsidiary to an overall aim. However, most scored reasonably well as they linked the indicators given to the parts of the mission.

Part (ii) required a detailed consideration of how performance measures are put together. The responses, here, were limited with many candidates only scoring a single mark per indicator but with 6 indicators and 12 marks on offer, they failed to develop their answers. For example, it was often clear that a candidate had correctly identified that there was a problem with the calculation of a particular indicator but very few attempted to quantify the impact of this problem. Many candidates showed that they did not understand how to calculate return on capital employed, which is an important financial indicator and one that they should be very familiar with.

Part (iii) required a general evaluation of the presentation of the business' dashboard of indicators. Candidates often scored some marks by making general points but then missed out by not expanding their answers using the specifics of the scenario.

The last parts of the question surrounded the reward schemes of the business.

Part (iv) required an explanation of certain detailed parts of the Building Block model. Responses to this question were generally poor as many candidates ignored the detailed requirements of the CEO and provided a rote-learned answer that irrelevantly described the whole model. This illustrates the importance of reading the requirement which stated 'explain...as required by the CEO' which was intended as an indicator for candidates to look at what the CEO had said in the scenario.

Part (v) required two proposed reward schemes to be evaluated and was generally well done with many candidates using the Building Block model concepts to good effect by illustrating how the two schemes demonstrated the ideal features from the model.

As has become common, those candidates who had practised writing professional answers prior to the examination performed admirably in the presentation area (4 marks). The markers were looking for suitable report headings, an introduction, a logical structure, signposted by the good use of subheadings in the answer, and a clear, concise style.

## **Question Two**

This question dealt with the use of target costing and Kaizen costing at a manufacturer.

Part (a) of the question required a basic calculation of the cost gap. Many candidates scored well on this part. However, a significant number chose to present their answers using absolute figures rather than per unit. This is both a failure to answer the question requirement and also, illustrates a lack of understanding about the application of the method, where per unit calculations are most helpful.

Part (b) of the question required candidates to apply the target cost method to the scenario to give

advice about performance improvements. Candidates scored reasonably well on this part but often failed to score marks as they did not analyse all the problem areas mentioned in the scenario. The scenario will often provide hints of areas to consider in an answer and good candidates use these to efficiently compile high marks in the longer parts of questions.

Part (c) of the question was fairly well answered with candidates demonstrating a fair understanding of Kaizen costing and its application.

### **Question Three**

Question 3 examined the impact that an analysis of the external business environment would have on performance measurement for a retailer.

Part (a) considered the use of such an analysis on specific factors for the company in the scenario. This was often well done with good use of examples relevant to the scenario to explain points.

Part (b) asked for an evaluation of the suitability of indicators currently in use for an expansion into a different country. This part was answered fairly well by many candidates. However, a significant number ignored the requirement and performed an evaluation of the indicators as they stood in the existing environment. This often produced lengthy but mostly irrelevant answers.

Part (c) of the question required the identification of new key performance indicators for part of the scenario. This was well answered where candidates justified each of their recommendations. Unfortunately, answers in the form of bullet point lists of new indicators with no discussion as to their relevance or reasoning for their choice were often offered but obtained little credit.

### **Question Four**

This question considered issues around divisional performance measurement.

Part (a) required an analysis of the reasons for the performance of a manager being measured differently from the division's performance. Again, in order to score well, it was important to pick up on the issues mentioned in the scenario and examine their impact on this question. Those that did this scored well in this part.

Part (b) required a calculation of the relevant profit to judge the manager's performance in order to assess their suitability for a bonus payment. This was generally done well.

Part (c) required an evaluation of the suitability of economic value added as a divisional performance measure. Answers to this part were surprisingly weak, often due to the candidate believing that the question required a lengthy description of the method of calculation of the indicator rather than focussing on its suitability for use in the scenario.