

## May /August 2020 Strategic Case Study

### 2019 CIMA Professional Qualification

### Full post exam support materials

Below is the full post-exam supporting material for the strategic case study exam.

#### Pre-seen material

May /August 2020 strategic case study pre-seen can be found [here](#)

#### Examiners report

The May/August 2020 examiners report can be found [here](#)

#### Exam variants

- Variant 1 can be accessed [here](#)
- Variant 2 can be accessed [here](#)
- Variant 3 can be accessed [here](#)
- Variant 4 can be accessed [here](#)
- Variant 5 can be accessed [here](#)
- Variant 6 can be accessed [here](#)

#### Suggested solutions

- Suggested solutions for variant 1 can be accessed [here](#)
- Suggested solutions for variant 2 can be accessed [here](#)
- Suggested solutions for variant 3 can be accessed [here](#)
- Suggested solutions for variant 4 can be accessed [here](#)
- Suggested solutions for variant 5 can be accessed [here](#)
- Suggested solutions for variant 6 can be accessed [here](#)

#### Marking Guidance

- Marking guidance for variant 1 can be accessed [here](#)
- Marking guidance for variant 2 can be accessed [here](#)
- Marking guidance for variant 3 can be accessed [here](#)
- Marking guidance for variant 4 can be accessed [here](#)
- Marking guidance for variant 5 can be accessed [here](#)
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**May and August 2020 Strategic Case Study Examination**  
**Pre-seen material**



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## Introduction

You are a senior manager in the finance function at Runnabout, the parent company of the Runnabout Group. You report directly to the Board and advise on special projects and strategic matters.

Runnabout is a quoted company that operates pay-as-you go “hoverboard” vehicles for use by the public in major cities. Geeland is a large and prosperous country with a population of more than one billion people. Geeland’s major cities have grown rapidly and many are struggling with the difficulties caused by traffic congestion and the resulting pollution.

Runnabout is based in Geeland where the currency is the G\$. Geeland requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

Geeland has an active and well-regulated stock exchange. Companies that are quoted on the exchange are required to adhere to the Geeland Code of Corporate Governance, which sets out detailed regulations relating to the governance arrangements for quoted companies.

## The micromobility industry

Micromobility is a relatively recent innovation, dating from the early 2000s. It involves the provision of one-way rental services that enable users to complete the so-called “last mile” of a journey quickly and efficiently. Micromobility users rent, say, a bicycle, scooter or hoverboard from one location and return it to another location that is conveniently close to their final destination. Typically, users are commuters who need a fast and efficient way to get from, say, a city-centre railway station to their offices.

Micromobility is generally used for relatively short journeys and so augments traditional public transport rather than replacing it. Commuters might be encouraged to travel into the city centre by train or bus, knowing that micromobility solutions are available enables them to get to work on time, without walking long distances or relying on local bus or taxi services that are likely to be slow-moving because of rush hour traffic.

### Bicycle-sharing

Bicycle-sharing permits users who are registered with a provider to rent bicycles on a short-term basis. The provider creates a network of bicycle docking stations or “docks” across a suitable location such as a city centre. Users can release a bicycle from a dock by identifying themselves, usually by swiping a debit or credit card. They can use the bicycle for as long as they wish but are charged a hire fee from releasing the bicycle until it is returned to one of the provider’s docks, which may not be the dock from which the bicycle was taken. Providers locate docks in places which encourage one-way journeys. For example, city centre bus and railway stations make convenient pickup points for morning commuters. Docks close to major office buildings are



convenient dropping off points. Users may then, if they wish, hire a bicycle for the first part of their return journey, taking a bicycle from a dock close to their place of employment and dropping it off at the station from which they will catch their bus or train home.

Bicycle-sharing is a relatively cheap and convenient way to cover the so-called “last mile” of a journey to a city-centre location. Cycling is generally faster than walking and can also be faster than a local bus service when rush-hour traffic is taken into account. Bicycle hire charges for sharing schemes are generally inexpensive.

While peak demand for bicycles occurs during the morning and evening rush hours, there is a constant demand throughout the day and late into the evening. Students often use bicycle-sharing schemes to travel between their accommodation and their college campuses. Tourists find them useful to explore cities and for transportation between attractions such as museums. Many cities have large numbers of flat-dwellers who live within a few miles of the city centre and who find it convenient to be able to use a bicycle sharing-scheme to get to and from work and for short journeys outside of work.

Bicycle-sharing schemes came into being in the early 2000s. They have since grown and developed in many cities around the world. There has been some controversy about their use and they have also been subject to competition from other types of transportation.

It is generally illegal to ride bicycles on pavements or in pedestrianised areas. Most countries’ laws require cyclists to ride on designated bicycle lanes or on the roads when





bicycle lanes are not available. Not surprisingly, increasing the numbers of cyclists on the roads increases the numbers of injuries involving cyclists.




Strict legislation has been introduced to reduce the risks associated with riding bicycles owned by sharing schemes. Operators must ensure that bicycles are roadworthy. Most operators require users to return a bicycle to its dock immediately if they believe that it is defective and to inform the operator of the bicycle's status using an app, in which case the bicycle will not be released to another user. Operators generally employ mechanics who attend to simple repairs such as flat tyres while the bicycle is still in its dock. For more serious repairs, the bicycles are transported to the operator's depot by van.



In many countries, including Geeland, cyclists are required to wear crash helmets. Bicycle-sharing schemes have no specific responsibility for ensuring that cyclists comply with this law, but it does mean that scheme users must either purchase and carry helmets if they wish to hire a bicycle or they must risk being stopped by the police and fined for failing to wear a helmet.

Bicycle sharing schemes continue to be popular in many countries and the number of trips made by users of those

schemes is increasing steadily. There are, however, some competing modes of transport in this market:

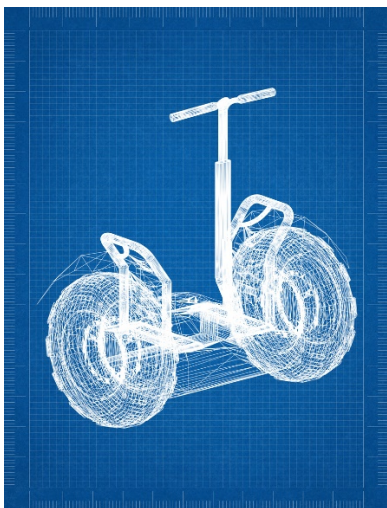
<b>Electric bicycles</b>		<p>Electric bicycles have battery powered motors that augment the users' pedalling and so require less effort. Many commuters prefer to use electric bicycles because of this.</p> <p>The bicycles' batteries are automatically recharged while they are in the docking station.</p>
<b>Electric scooters</b>		<p>Electric scooters are powered by batteries. They do not require any effort from their users. They are recharged while docked.</p> <p>They have proved controversial because they are often ridden on pavements rather than on the road and have been involved in accidents involving pedestrians.</p>
<b>Hoverboards</b>		<p>Hoverboards are generally ridden on pavements in a city context.</p> <p>They can be recharged while docked and used in a similar manner to electric scooters.</p> <p>Hoverboards are slower than electric scooters.</p>

## Hoverboard-sharing

Hoverboards do not actually “hover”. They are two-wheeled vehicles that are driven by electric motors, powered by rechargeable batteries. The user stands on a platform that fits between the two wheels. The hoverboard is controlled by the operator leaning in the desired direction of travel. A slight lean forward makes the machine roll ahead and leaning to the left or right makes the machine turn in that direction. Leaning backward will make the hoverboard slow down and reverse if the operator continues to lean in that direction after stopping.



Hoverboards, which are sometimes referred to as “self-balancing scooters” work as follows:

<b>Electric motors</b>  Each wheel is powered by its own electric motor, which enables the hoverboard to steer. If the user wishes to turn left then the right-hand wheel spins a little faster, making the board turn left.  The motors also prevent the board from tilting by more than a few degrees, even when it is standing still.		<b>Computer</b>  The electric motors are controlled by an onboard computer that is programmed to manage both stability and movement.  Sensors in the platform provide the computer with inputs that keep the platform stable enough to stand on and that detect the user’s control inputs to control speed and direction.
<b>Gyroscope</b>  A gyroscope built into the platform enables the computer to measure the angle of the platform. The computer sends instructions to the wheels using feedback from the gyroscope to prevent the platform from tilting.	<b>Platform</b>  The platform is strong enough to carry the weight of the user. It carries the hoverboard’s other components. It also contains pressure switches that measure the control inputs from the user.	<b>Battery</b>  Hoverboards generally use 36-volt batteries, which provide sufficient power to ensure a satisfactory performance.  The hoverboard’s range is determined by the capacity of the batteries.

Hoverboards come in different sizes, depending on whether they are being sold as adult transportation or children’s toys. Adult hoverboards can reach speeds of approximately 10 miles per hour (or 16 kilometres per hour), although riding at full speed will quickly run down the battery. A fully-charged hoverboard that is driven at the equivalent of a brisk walking pace can travel over 15 miles (or 24 kilometres) before running out of power.

Hoverboards trace their roots back to the launch of self-balancing scooters in the early 2000s. They captured the public’s attention because they looked inherently unstable and yet they could be ridden with apparent ease because of a combination of ingenious engineering and electronics.



Early hoverboards were too expensive for consumers to buy, but they quickly became established as a means of fast and efficient transportation for staff who needed to be mobile within areas populated by pedestrians. For example, security staff in theme parks, shopping malls and airports can respond to alerts quickly without having to rely on conventional vehicles that would be too large and could pose an unacceptable risk to the public. These hoverboards also enable the rider to see

over pedestrians because the platform is a few inches above ground level. The hoverboards have other uses, such as giving first aiders and paramedics the ability to get to a casualty quickly or giving staff supervisors the ability to attend incidents or interact with staff spread across their areas of responsibility.



The machines themselves require no training to operate. The rider simply must lean in the desired direction of travel and can regulate speed by leaning more to go faster and less to slow down. These machines are not, however, without their risks, especially if they are operated irresponsibly. They can generally travel faster than a brisk walking pace, so the rider may have to navigate around pedestrians. The user could fall off or strike an obstacle if riding carelessly and a collision with a pedestrian would be potentially serious because the combined mass of the hoverboard and its user would have significant momentum when travelling at speed.

Hoverboards are generally designed to operate on smooth surfaces, such as pavements and tiled floors. They cannot be ridden safely on roads because their wheels could catch in potholes and drains. They would also be vulnerable to motor vehicles and would force passing cyclists away from the kerb and into the paths of larger and faster vehicles.

Hoverboards have also raised safety risks associated with their batteries overheating and bursting into flames. Hoverboards require both high voltages and high currents in order to ensure that the platform remains stable and achieves an acceptable speed. Loose connections can result in a short circuit that causes the battery to overheat and possibly catch fire. In extreme cases, rough handling of a battery can crack the battery's case, creating the risk of an explosion if the electrolyte is released and comes into contact with the air. Batteries are vulnerable to damage if hoverboards are ridden carelessly or if they are mistreated in use or storage.



## Runnabout

Runnabout was established in 2005. The company was created to rent bicycles in response to the successful launch of city centre bicycle-sharing schemes that had been launched in several other countries. The company started with three docks in the centre of Geeland's Capital City. It rapidly expanded until it had a total of 32 docks across Capital City and a significant presence in 14 other cities across the country.

Runnabout was quoted on the Geeland Stock Exchange in 2010.

In 2012, Runnabout's Board commissioned a strategic review of the market for micromobility in Geeland. The directors were concerned that demand for sharing schemes based on conventional bicycles was tailing off because commuters were becoming unwilling to rely on pedal power for even short distances. Geeland is a relatively flat country, so cyclists do not have to contend with many hills, but the weather can be rather windy, which can make cycling quite tiring.

On an experimental basis, Runnabout modified some of the docks in Capital City to operate both electric and conventional bicycles. That enabled users to choose between pedal driven and electric bicycles, with a slightly higher rental fee for electric bicycles to cover the cost of recharging batteries. The docks were located to enable users to use electric bicycles on frequently used routes. Runnabout also replaced all of the docks and bicycles in Western City so that users could use electric bicycles across the whole of that city's network. Runnabout found that the introduction of electric bicycles did little to stimulate demand.

In 2014, the government of Geeland introduced legislation to make it mandatory to wear helmets while cycling. That reduced demand for both pedal driven and electric bicycles. The company experimented with various schemes, such as offering to sell scheme members helmets at discounted prices.

The new helmet legislation coincided with the launch of two competing bicycle-sharing schemes in Geeland. Both of Runnabout's new competitors focussed their attention on Capital City, but soon started to expand into other towns and cities. These competitors grew steadily.



In 2016, Runnabout replaced its bicycles with hoverboards in Western City. The docks that had previously been used to secure bicycles were replaced with hoverboard-compatible docks. These were an immediate success, with hoverboards quickly becoming popular with many commuters because they required even less effort to ride than electric bicycles. They also opened up new markets, with hoverboards proving popular with tourists, who found them an ideal way to explore a city, either individually or as part of a guided tour. They are particularly

suitable for tours of seafronts in coastal resorts because they are generally flat and offer wide paved areas that are free of traffic. Hoverboards also proved popular with shoppers, who could park at the edge of a city centre and use a hoverboard to get to the shops. Runnabout was encouraged by these results and so replaced bicycles with hoverboards across Geeland.

Runnabout moved quickly to establish its hoverboard-sharing scheme in Capital City and in each of the other 14 cities in which it previously operated as a bicycle-sharing operator. The other bicycle-sharing companies continue to rent out both pedal and electric bicycles, but none have expressed any interest in converting to hoverboards or other forms of micromobility. The city authorities have made it clear that they wish to observe the effects of hoverboards on the flow of pedestrians and traffic in city streets and also on the safety implications of these devices. Each of the 15 cities in which Runnabout operates (including Capital City) has

announced that it will not permit any other hoverboard-sharing schemes on its streets, leaving Runnabout as the sole provider for the foreseeable future. All of those cities will, however, continue to encourage the development of bicycle sharing.

In Geeland, the responsibility for the management of road and pedestrian safety is a matter for individual town and city councils (the elected local government authorities responsible for many services including transport). Companies that wish to offer any form of public transport, including micromobility services, must be licensed by the appropriate town or city council.

Runnabout employs 15,000 people, including 2,000 planning and analysis staff at its Head Office. The company's experience of providing micromobility services has given it a deep understanding of the flow of pedestrians through city centres. That understanding extends to the interaction between micromobility and different forms of public transport, to the extent that town and city councils have sought advice about transportation services from Runnabout on a consultancy basis.

Runnabout has a total of 30,270,000 registered users. Registration requires the user to create an account on Runnabout's secure website and to download a mobile phone app. Registration is free, but all hoverboard rides are charged to the user's credit card. When creating an account, users must provide their 16-digit credit card number accompanied by their 3-digit credit card validation (CCV) number.

Users can use the app to locate the nearest Runnabout dock that has available hoverboards. Alternatively, users can walk to convenient docks in the hope that there will be sufficient hoverboards available.



Each dock has a 4-digit location number. Each user logs into the app using an individual pin number and then inputs the location number of the dock from which they wish to hire a hoverboard. Runnabout's central server verifies the user's account and sends a 5-digit one-time code to the user's phone. The user keys the one-time code into the dock and the dock releases a hoverboard.

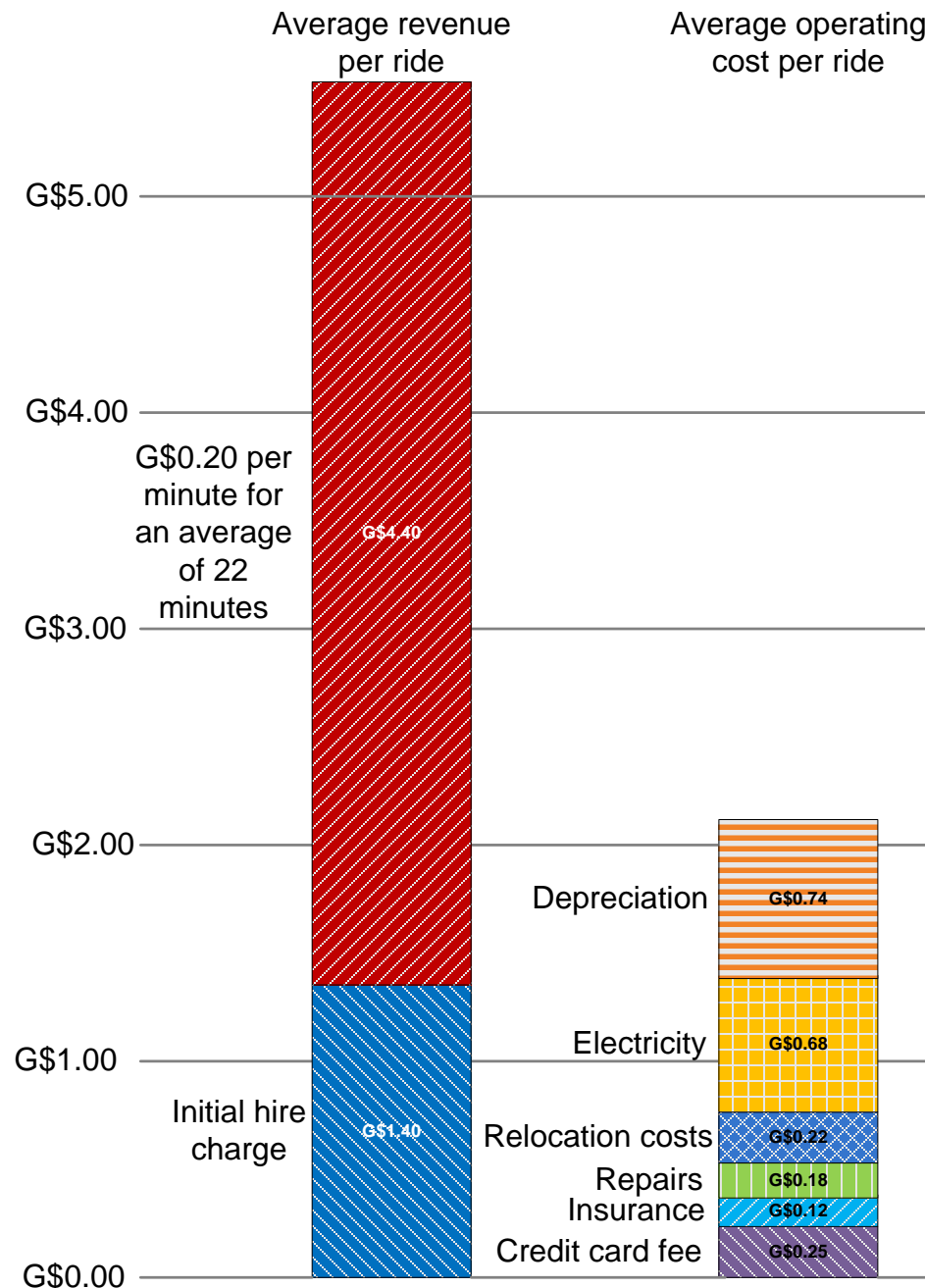
The app can locate nearby docks to which a hoverboard can be returned, or the user can simply ride to a known dock. The user activates the dock using the phone app and is directed to place the hoverboard in a bay at street level. That brings the hire period to an end and the cost is charged to the user's credit card.

The mechanism inside the dock interrogates the electronic self-diagnosis software on the hoverboard's computer. The hoverboard is taken out of service and is set aside for collection by a mechanic if it reports any mechanical or electrical failures. Otherwise, it is docked and charged ready for hire by the next user.

Runnabout's mechanics must collect and relocate hoverboards throughout the day in response to capacity in the docks and availability of hoverboards. On a typical weekday, 43% of all hoverboard hires occur during the "rush hour" periods of 7.00 to 9.00am and 4.00 to 6.00 pm. During the morning rush hour, many hoverboards are undocked from bus and railway stations and redocked in city centre locations close to places of employment. The opposite is true of the evening rush hour. Runnabout uses vans to relocate hoverboards from docks that are close to being full up to docks that are in danger of running out of hoverboards. That

ensures that users can rely on finding an available hoverboard that can be redocked close to their final destination. Runnabout's vans also uplift faulty hoverboards for repair.

The average hire period for one of Runnabout's hoverboards is 22 minutes. The revenue and cost associated with a typical hire is as follows:



The average revenue per journey is G\$5.80 and the average cost to Runnabout is G\$2.19.

The software in Runnabout's hoverboards restricts the maximum speed of travel to 6 miles per hour (approximately 10 kilometres per hour). That is faster than a typical brisk walking pace of 3 to 4 miles per hour. The hoverboards could travel at much greater speeds, but Runnabout is concerned that a higher speed would lead to more accidents.

Runnabout requires users to be at least 18 years old and to have a valid car driver's licence. Although there is no legal requirement for users to be of a minimum age or to hold an official driving licence, Runnabout's insurers would charge more in the absence of those requirements. Runnabout is insured both against claims arising from injury to users and damage to their property and public liability insurance that covers injury or property damage to third parties.

The insurance cost stated above refers to the insurance cover provided to users with respect to any injury caused by the user to a third party or damage to third party property. This cover applies automatically for the duration of any valid hire by a user. Runnabout also incurs significant cost for insurance against claims made against the company by users or by third parties for injury or property damage.

To date, all of Runnabout's hoverboards have been purchased from Minnerring Robotics, a major manufacturer of industrial equipment based in Deeland, a country that is strongly associated with excellence in engineering. Minnerring has no connection with Runnabout, other than as a supplier. Runnabout selected Minnerring's hoverboard because it was a robust design that had been designed for use in factories as personal transportation for security staff and supervisors. When ridden carefully on flat surfaces such as tiled or concreted floors, Minnerring's hoverboards could be used for 40 hours a week for up to 6 months before they had to be replaced. The average depreciation charge of G\$0.74 per ride is based on estimates of life expectancy provided by Minnerring.

Minnerring sells its hoverboards to a wide range of customers around the world, although Runnabout is the only customer who uses them to facilitate shared-hoverboard services. Minnerring hoverboards are used extensively in industrial and retail settings. For example, many security departments equip their officers with Minnerring hoverboards for patrol and fast-response duties.





## Extracts from Runnabout's annual report

### Runnabout's vision, mission and values

#### ***Vision***

To keep Geeland moving.

#### ***Mission***

Runnabout's mission is to offer an economical and efficient approach to micromobility. We wish to harness both new and existing technologies to enrich our users' lives while creating wealth for our shareholders.

#### ***Values***

Runnabout will:

1. provide users with safe and convenient transportation,
2. minimise the environmental footprint of its micromobility solutions,
3. protect the safety and dignity of its employees,
4. engage with stakeholders to the mutual benefit of all.

## Runnabout's Board of Directors

### *Jack Avery, Non-Executive Chairman*

Jack is a retired business executive who was CEO of Capital City Buses, which operates an extensive network of buses across Greater Capital City.

During his period of leadership, Capital City Buses increased the number of buses in service by 22%.

Jack was appointed by Runnabout in 2017.

### *Mei Yee, Chief Executive Officer*

Mei worked as a senior logistics manager in a courier company in Geeland for 16 years. She then joined Runnabout in 2018.

### *Geo Pataros, Chief Financial Officer*

Geo was a senior accountant with an electric scooter manufacturer before he was appointed to Runnabout's Board. He is a qualified accountant.

Geo was appointed in 2019.

### *Alan Peters, Director of Operations*

Alan is a traffic engineer by training. He worked for Western City Council for twenty years, working on a range of responsibilities including road planning and public transport management.

Alan joined Runnabout's Board in 2015.

### *Shaun McDougall, IT Director*

Shaun has held a number of senior positions in major quoted companies including gaming companies. He enjoys a challenge and was delighted to join the Board in 2018.

### *Pat Olly, Human Resource Director*

Pat has held senior HR roles in a number of organisations. She joined Runnabout as Human Resource Director in 2017.

### *Marco Palermo, Independent Non-Executive Director*

Marco is a qualified accountant who was a partner in one of Geeland's leading accountancy firms before he retired from full-time employment.

Marco was appointed to Runnabout's Board in 2017.

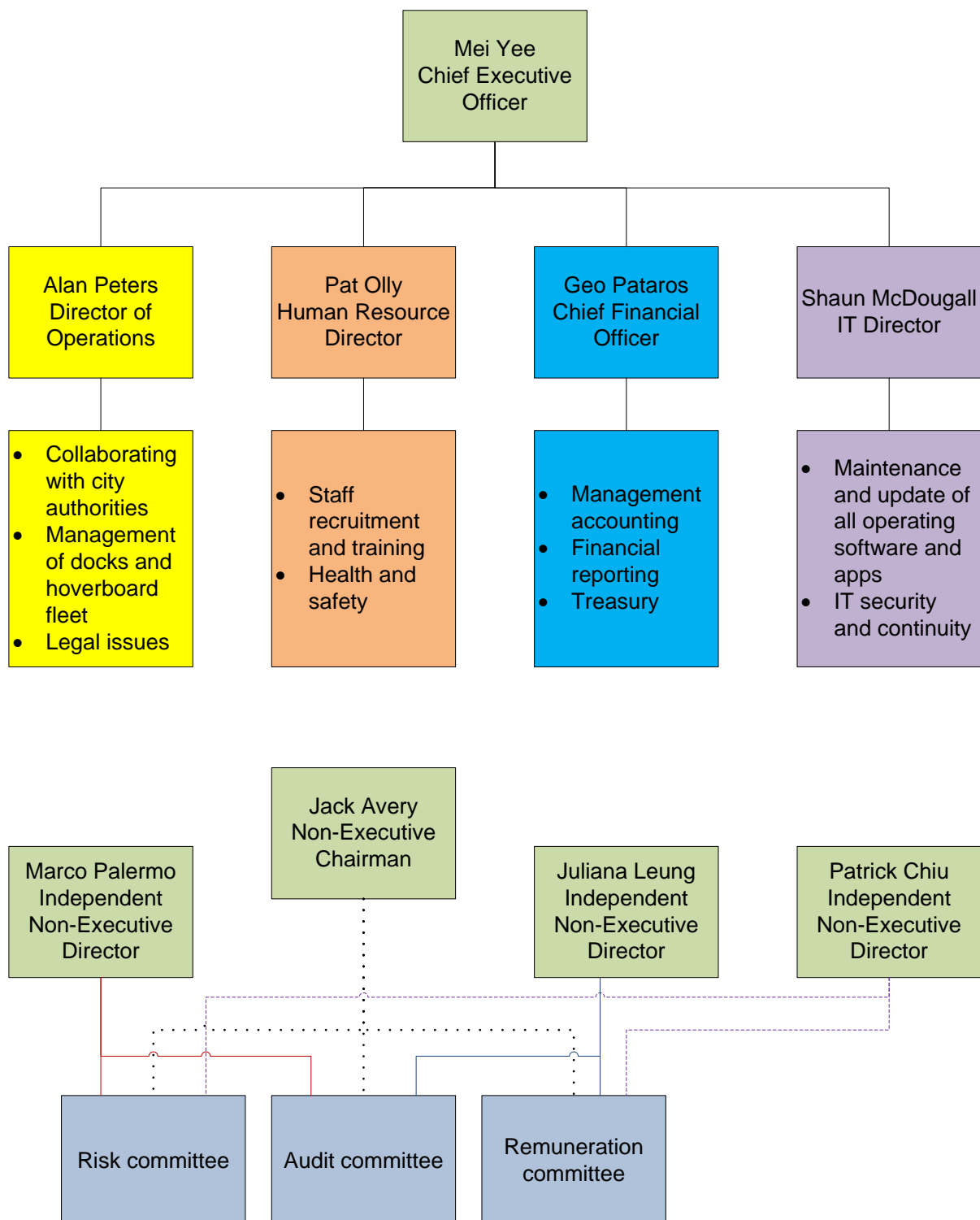
### *Juliana Leung, Independent Non-Executive Director*

Juliana founded a successful transport company. She retired in 2013 and was appointed to Runnabout's Board in 2016.

### *Patrick Chiu, Independent Non-Executive Director*

Patrick was a senior manager in Geeland's Health Service, specialising in financial management. He was appointed to Runnabout's Board in 2017.

## Organisation chart



## Runnabout's Principal Risks (extracted from annual report)

Risk theme	Risk impact	Risk mitigation
<b>Safety</b>	Hoverboards can cause injury and property damage when ridden irresponsibly.	Users must be at least 18 years old and hold a driver's licence before they can register as users.
	Hoverboards can injure pedestrians because they travel at relatively high speed on pavements and in pedestrianised areas.	Runnabout has comprehensive insurance cover for both injury and property damage.
	Hoverboards are powered by high capacity rechargeable batteries that can be prone to catching fire or exploding. They are particularly dangerous when dismantled or handled roughly.	All employees are fully trained in the safe handling of hoverboards. The hoverboards themselves have self-diagnostic sensors that can provide warning of problems with electrical connections and battery temperature.
<b>Regulation and licensing</b>	Runnabout requires the permission of city authorities in order to locate docks in convenient locations and offer the hire of vehicles for use on public pavements and pedestrianised areas. If that permission is withdrawn by any given city then operations would have to cease.	Runnabout maintains strong communication links with the local authorities.  Runnabout's Board takes care to ensure that any concerns raised by the authorities are addressed as a matter of priority.
<b>Competition</b>	Runnabout has to compete with other providers of micromobility services, as well as traditional public transport, taxi and ride-sharing services. Competitors may take advantage of developments in technology and may receive subsidies from the government or city authorities.	Runnabout is the only provider of shared hoverboards in the cities in which it operates. That has a number of advantages. Hoverboards are the only vehicles that can be ridden on pavements, and so do not expose users to the risks of riding on the roads. They are also unaffected by delays caused by heavy traffic.
<b>IT</b>	Runnabout's operations are wholly dependent upon the availability of its servers and users' access to mobile phone networks in order to operate their apps.	The servers are backed up to a remote hot backup site that can take over in the event of the main site becoming unavailable.  Mobile phone networks rarely go out of service. Those rare outages that do occur rarely affect more than one service provider, so it would be unlikely to prevent all users from hiring hoverboards.
	Runnabout's files contain sensitive data about users, including credit card details and the location of users when they hire and return hoverboards.	Runnabout ensures that its servers are secure. Staff are subject to background checks to ensure that they are trustworthy before they are granted access to users' data.

## Runnabout's internal audit charter

Internal Audit is overseen by Runnabout's Audit Committee. The Chief Internal Auditor reports to Marco Palermo, the convener of the Audit Committee.

The Chief Internal Auditor is responsible for the management and organisation of internal audit staff. Internal Audit investigations will be conducted in accordance with appropriate professional audit standards.

The members of the Internal Audit Department are granted unrestricted access to any records, locations and assets that they deem necessary in order to discharge their duties. They are also free to interview all staff and have a right to receive full cooperation whenever they do so.

Audit staff will submit a written report to the Chief Internal Auditor at the conclusion of each audit investigation. The Chief Internal Auditor will provide the Convener of the Audit Committee with a summary of all audit reports, in addition to copying the full reports to the Convener.

Internal audit reports will be used to provide feedback to managers who are responsible for the areas subject to audit. Where exceptions are noted, the managers responsible will agree a plan for rectification and the internal audit staff will ensure that agreed changes are implemented.

An internal audit plan will be developed each year and approved by the Audit Committee. The plan will focus on areas identified using a risk-based approach. The Chief Internal Auditor will seek authorisation from the Convener of the Audit Committee before deviating from the plan. The Audit Committee has the authority to require revisions to the plan or to request special investigations that are deemed necessary.

## Financial statements

The following information has been extracted from Runnabout Group's financial statements for the year ended 31 December 2019

### Runnabout Group

#### Consolidated statement of profit or loss for the year ended 31 December

	2019	2018
	G\$ million	G\$ million
Revenue	97,943	85,211
Cost of goods sold	(39,908)	(34,323)
Marketing expenses	(5,083)	(4,175)
Administration expenses	(21,055)	(20,213)
Operating profit	31,897	26,500
Financial expense	(5,623)	(2,892)
Profit before tax	26,274	23,608
Tax	(6,831)	(6,883)
Profit for the year	19,443	16,725

### Runnabout Group

#### Consolidated statement of changes in equity for the year ended 31 December 2019

	Share capital	Retained earnings	Total
	G\$ million	G\$ million	G\$ million
Opening balance	10,000	29,143	39,143
Profit for year		19,443	19,443
Dividend		(7,095)	(7,095)
Closing balance	10,000	41,491	51,491

**Runnabout Group**  
**Consolidated statement of financial position**  
**as at 31 December**

	2019 G\$ million	2018 G\$ million
<b>Non-current assets</b>		
Property, plant and equipment	128,790	109,471
Intangible assets	1,621	1,508
	<u>130,411</u>	<u>110,979</u>
<b>Current assets</b>		
Inventories	389	306
Trade receivables	9,821	9,035
Cash and cash equivalents	2,325	2,622
	<u>12,535</u>	<u>11,963</u>
<b>Total assets</b>	<u><u>142,946</u></u>	<u><u>122,942</u></u>
<b>Equity</b>		
Share capital	10,000	10,000
Retained earnings	41,491	29,143
	<u>51,491</u>	<u>39,143</u>
<b>Non-current liabilities</b>		
Loans	62,475	55,475
Deferred tax	15,079	15,012
	<u>77,554</u>	<u>70,487</u>
<b>Current liabilities</b>		
Trade payables	7,056	6,421
Current tax	6,845	6,891
	<u>13,901</u>	<u>13,312</u>
<b>Total equity and liabilities</b>	<u><u>142,946</u></u>	<u><u>122,942</u></u>



## Major competitor

Runnabout is the only provider of hoverboard-sharing services in Geeland, but it is not the only provider of micromobility services. Dokbyke operates an electric bicycle-sharing scheme in Capital City and five other major cities.

### **Dokbyke Group**

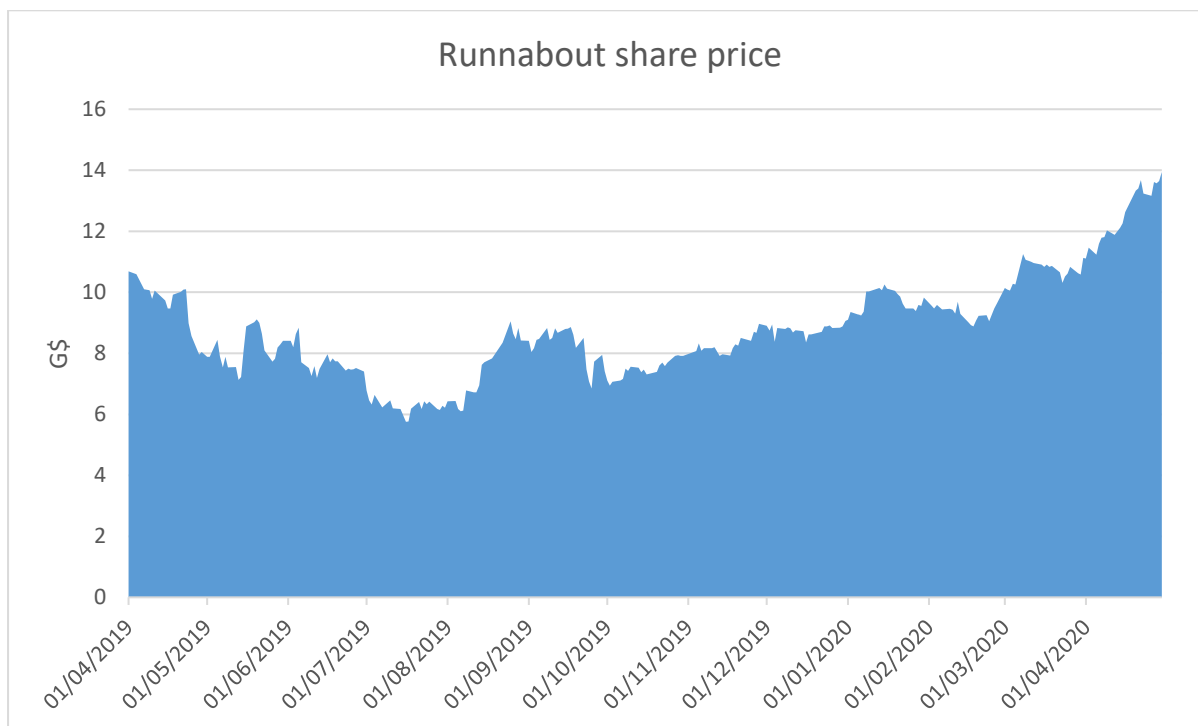
#### **Consolidated statement of profit or loss for the year ended 31 December**

	2019	2018
	G\$ million	G\$ million
Revenue	28,403	23,859
Cost of goods sold	(9,788)	(7,624)
Marketing expenses	(2,129)	(2,019)
Administration expenses	(5,913)	(5,475)
Operating profit	10,573	8,741
Financial expense	(1,079)	(1,298)
Profit before tax	9,494	7,443
Tax	(2,468)	(1,935)
Profit for the year	7,026	5,508

**Dokbyke Group**  
**Consolidated statement of financial position**  
**as at 31 December**

	2019 G\$ million	2018 G\$ million
<b>Non-current assets</b>		
Property, plant and equipment	24,470	24,084
Intangible assets	1,426	1,312
	<u>25,896</u>	<u>25,396</u>
<b>Current assets</b>		
Inventories	86	74
Trade receivables	3,143	3,072
Cash and cash equivalents	419	420
	<u>3,648</u>	<u>3,566</u>
<b>Total assets</b>	<u><u>29,544</u></u>	<u><u>28,962</u></u>
<b>Equity</b>		
Share capital	800	800
Retained earnings	7,860	5,229
	<u>8,660</u>	<u>6,029</u>
<b>Non-current liabilities</b>		
Loans	11,993	14,424
Deferred tax	4,222	4,504
	<u>16,215</u>	<u>18,928</u>
<b>Current liabilities</b>		
Trade payables	2,187	2,058
Current tax	2,482	1,947
	<u>4,669</u>	<u>4,005</u>
<b>Total equity and liabilities</b>	<u><u>29,544</u></u>	<u><u>28,962</u></u>

## Share price history



Runnabout's geared beta is 1.33. Its ungeared beta is 1.21.

# Geeland Daily News

## ‘Hoverboard ankle’ concerns doctors



Hospital emergency rooms have reported a steady increase in the number of ankle injuries caused by hoverboard users crossing roads by jumping off the kerb at maximum speed. This affects children playing with toy hoverboards near their homes and adults using larger hoverboards in city centres.

When hoverboards are ridden like this over time the springs that absorb the impact of jumping from the pavement down to the road weaken and sometimes even break. That puts users at risk of injury because the impact is then absorbed by their ankles, leading to sprains and broken bones.

Doctors blame the increase in injuries on the fact that users are becoming more confident in their riding ability and are taking greater risks.

Runnabout, the shared-hoverboard provider, advises its users that hoverboards should never be ridden over obstacles such as kerbs. If users need to cross the road they should either do so using a pedestrian crossing that has a lowered kerb or wait until the road is clear and carry their hoverboard to the opposite side.

# IT Monthly

## Dokbyke CIO criticises lack of qualified graduates



Titus Mohubedu, Chief Information Officer at Dokbyke, Geeland's largest bicycle-sharing service, spoke out against the many "irrelevant" degree courses in IT that are offered by some universities. In his opinion, many IT degrees are far too theoretical and pay insufficient attention to the real-world issues that matter to IT managers. He was speaking at the launch of the collaborative degree course that Dokbyke was sponsoring at the University of Capital

City. This combines academic study with structured practical experience at Dokbyke's data centres. It is hoped that the course will attract 150 students each year, most of whom will work for Dokbyke when they graduate.

Mr Mohubedu pointed out that many service providers, including Dokbyke and similar entities, were wholly dependent upon the efficiency of their IT infrastructure. He said that Dokbyke employed more staff in IT than it did in maintaining and servicing its bicycles. Dokbyke's IT spend amounts to 14% of its total operating costs.

# Geeland Telegraph

## Business News

### Banks criticise credit card customers



A recent report by the banking industry has demonstrated that many credit card customers took a very careless view of the security features that are built into their cards. The two largest issuers have more than 500 million cardholders between them, so that could represent a significant exposure to fraudulent transactions.

Typical cardholder errors include:

- Physical security – many cardholders leave their wallets and purses in plain sight in their homes, which means that burglars can steal their credit cards, along with the other data that can be used to validate a telephone payment, such as their dates of birth and postal addresses.
- Failing to sign the signature strip on the back of their card – those signatures are rarely examined, but they are there to help confirm the cardholder's identity and there is no need to make life easy for a thief.
- Carelessness with the 3-digit security number on the back of the card – contrary to popular belief, the 16 digit number on the front of the card is rarely sufficient on its own to validate an online or telephone payment, but having the extra three digits is often sufficient to validate a payment.
- Writing down the PIN number – it is commonplace for cardholders to carry a piece of paper with their personal identification number (PIN) in their wallet or to have their PIN written in their diary.

The banks have warned that their losses from credit card fraud are unsustainable and that cardholders who are careless may be held liable for some or all of any unauthorised charges made against their accounts.

# Geeland Telegraph

## Bicycles make city streets safer for all



A research study published by the University of Western City suggests that micromobility was changing the nature of accidents involving pedestrians. There is a strong negative correlation between the numbers of bicycles and the number of pedestrians being knocked down by motor vehicles. That has been attributed to the “traffic calming” effects of motorists driving more slowly because of the difficulties of overtaking groups of cyclists safely. There have been fewer cases of

pedestrians being knocked down by motor vehicles while crossing the road.

Unfortunately, the pavements themselves are becoming increasingly dangerous because of hoverboards. The danger is that pedestrians who step to the side to let hoverboards pass are at risk of stepping into the paths of bicycles that are approaching silently from behind.

Overall, there is no evidence that city streets are becoming more dangerous, but all road and pavement users are reporting an increase in the perceived risk of travelling at busy times.



# Geeland Telegraph

## City Councillor clashes with Transport Minister

A row has broken out between Geeland's Transport Minister and the Councillor who is responsible for oversight of the Capital City Street Safety (CCSS) department at Capital City Council.



The dispute is over the need for regulation of the siting of docks to support micromobility schemes on city streets.

The Transport Minister, who is responsible for governing transportation at a national level, wishes to impose more stringent rules relating to the maximum size of docks and the minimum distance from roads. The City Councillor objects on the grounds that city councils should retain the power to

decide such matters, taking account of the needs of local pedestrians and local traffic conditions.

This debate is unlikely to be resolved soon. There are important democratic principles at stake, which are not helped by the fact that the ruling party in charge of Capital City Council is not the same as the party in charge of Geeland's national parliament.

## Extracts from Whiny Turner's Blog

### Personal best!



I had my fastest run yet from the railway station to my office. I hired a trusty Runnabout hoverboard as usual and, by luck, the pavements were quieter than usual. It only took me 18 minutes to get to the dock outside the office instead of the usual 20 minutes or more. Admittedly, the hoverboard felt pretty hot when I redocked it. That must be why the machine was making that beeping noise when I was pushing it hard up the slight incline to the junction with Harper Street!

#### COMMENTS

I think the beeping noise means that the battery is overheating. I don't think that Runnabout can complain if we push their machines hard because we pay by the minute. Shaving two minutes off your run would save you a fair amount over a week.

Street Surfer

Whiny, we should race one day!

Rubber Burner

### Warm jumper



I had my first serious "incident" today, trying to get back to the station in time to catch the early train. I had to cross Pike Street and was heading for the pedestrian crossing when the road cleared. Rather than risk getting caught at the lights, I turned and jumped the hoverboard I was riding from the pavement down to the road. I have made that manoeuvre many times, but the pavement was higher than I had expected and I hit the road with a crash. I managed to stay upright, but the hoverboard's platform was badly broken and it would have been crazy to have tried to ride it like that. I ended up carrying the hoverboard to the nearest dock and returning it. The battery was really hot, although I wasn't riding all that hard.

Needless to say, I missed my train.

#### COMMENTS

You might get a letter from Runnabout. They will know that you were the last person to ride that hoverboard, unless somebody else is stupid enough to take it out in that condition. My advice is to say that it was like that when you hired it.

Sad Eric

I think that you were lucky. The hoverboard probably had a short circuit after the crash and that made it overheat. You could have been burned.

Throttle Master

## Putting on weight?



I left for the station at the same time as a colleague today. We like to race to the station and it is usually a good contest because there is rarely more than a few seconds between us. Tonight, my colleague forgot that he was wearing a rucksack full of books that he had collected for charity. It must have weighed at least 30 kg.

Anyway, he couldn't understand why he was unable to keep up with me. When I told him that Runnabout has a 95 kg weight limit, which is highlighted during Runnabout's initial registration process, he said that he weighs only 80 kg. He couldn't understand that he had to count the weight of his rucksack too.

### COMMENTS

Runnabout says that the maximum weight is 95 kg, but it is probably ok to exceed that by 5 kg or so. Your colleague almost certainly overloaded the hoverboard to breaking point. He was lucky not to have lost a wheel or broken the platform because falling off a hoverboard while travelling at 6 miles per hour will always be unpleasant.

Boy Racer



## Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Section (task)	Time for section (minutes)	Number of answer screens	Number of sub-tasks	% time to spend on each sub-task
1	60	1	2	(a) 60% (b) 40%
2	60	1	2	(a) 50% (b) 50%
3	60	1	3	(a) 40% (b) 30% (c) 30%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.



Reference Material

Pre-seen

You receive the following email:

**From:** Geo Pataros, Chief Financial Officer**To:** Senior Manager**Subject:** news report

Hi

I have attached a news report that went online this morning. It will take at least a month to design and implement an effective technical response to prevent our hoverboards from being hacked in this way. The problem was only discovered 48 hours ago when staff at Capital City Street Safety (CCSS) studied closed circuit television footage of a street accident and saw that one of our hoverboards was being ridden at excessive speed.

CCSS has already completed its routine analysis of recent accident statistics. The increase in accidents involving hoverboards started four weeks ago. We have not yet been able to obtain comparable statistics from the other cities in which Runnabout operates.

Runnabout's Board has identified the following as key stakeholders who will be affected by this problem: CCSS (and its counterparts in the other cities that have Runnabout hoverboards), the emergency services, our insurance company and our users.

Our CEO wished to update Runnabout's risk register to reflect the risk of unauthorised modifications by users, but none of the executive directors would accept responsibility for having their teams own and manage this risk. The CEO has now suggested that the four executive directors should share the responsibility jointly.

I need you to draft a paper on the following matters:

Firstly, identify and explain the interests of the key stakeholders.

**[sub task (a) = 60%]**

Secondly, evaluate the CEO's proposal that the four executive directors should collectively own and manage the risk of users modifying our hoverboards.

**[sub task (b) = 40%]**

The news report referred to can be found by clicking on the Reference Material button above.

# Geeland Daily News

## Hoverboards hacked



Capital City Street Safety (CCSS), the local government department responsible for the safety of road users and pedestrians across Capital City, has issued a warning concerning a significant number of accidents involving Runnabout's rented hoverboards that had been modified by their users to operate at more than twice their intended maximum speed. During the past month, emergency services have been called to more than 40 incidents

involving serious injury or significant property damage. Most of those incidents involved collisions between hoverboard users and pedestrians, but there have also been cases of hoverboard users injuring themselves through falling or riding into obstacles.

Most of these accidents have been blamed on users deactivating the safety settings on the hoverboard's onboard computer. Rented hoverboards have their speed restricted to 6 miles per hour, but a software hack can be purchased online and downloaded from the internet that cancels that setting and permits hoverboards to operate at their maximum speed of 15 miles per hour.

Hoverboards have USB ports that are used by Runnabout's qualified engineers to access sensor readings and run diagnostic routines. The software hack can be loaded onto a memory stick, which then overrides all speed restrictions when the memory stick is plugged into the USB port. The hoverboard then reverts to its restricted speed of 6 miles per hour when the memory stick is removed.















A CCSS spokesperson commented that hoverboards can be dangerous even at 6 miles per hour. Increasing the maximum speed to more than twice that was reckless. The spokesperson refused to comment on the possibility that CCSS might withdraw Runnabout's licence to operate shared-hoverboard services in Capital City.



Reference Material










Pre-seen


Write your response to Geo Pataros in the box below.



Paragraph ▾

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 Reference Material Pre-seen

The following morning, Geo Pataros stops by your workspace and passes you a document:

"I have brought you an extract from the minutes of yesterday's Board meeting. I need you to draft a briefing that I can present to the Board.

Firstly, I need you to explain the implications of the fall in our share price for Runnabout's Board and the company itself. The share price has stabilised at 25% less than it was before the news of the accidents was released, but bear in mind that the news was only published a few days ago.

**[sub task (a) = 50%]**

Secondly, I need you to explain the strategic implications for Runnabout of the Group establishing its own captive insurance company."

**[sub task (b) = 50%]**

The extract from the minutes referred to can be found by clicking on the Reference Material button above.

**Board minute extract****Share price**

The Board expressed concern that Runnabout's share price fell by 20% within a few hours of the announcement concerning the accidents involving hoverboards in Capital City. The fact that the share price had continued to fall slowly since was also a concern.

**Insurance cover**

Alan Peters, Director of Operations, tabled a letter that Runnabout's insurer had couriered to the company. The letter warned that claims would not be paid in the event of the involvement of hoverboards that had been modified to travel at speeds in excess of 6 miles per hour. Furthermore, the insurer warned that Runnabout's premium would increase by 40% when the current policy expired.

Alan Peters reported that Runnabout's lawyers had advised that it would not necessarily be possible for the insurer to reject claims under those circumstances, although it might require court action to prove that point.















Mei Yee, CEO, proposed that Runnabout should consider creating a "captive" insurance company. Under her proposal, Runnabout would create and fund a subsidiary that would be registered as an insurance company. The company would not seek any customers other than Runnabout. The other members of the Runnabout group would pay an annual premium to the captive insurance company, which would hopefully be sufficient to cover the costs of claims against the Group as a whole.

Mei Yee acknowledged that the various cities who permit Runnabout to operate its shared-hoverboard service insist on adequate insurance cover, but there is nothing to prevent Runnabout from insuring itself. Legally, Runnabout's operations would be insured even though the Runnabout Group as a whole would bear its own insured risks.


Reference Material





Pre-seen



Write your response to Geo Pataros in the box below.





Paragraph ▾


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 Reference Material Pre-seen

Three months have passed. The software on Runnabout's hoverboards has been modified to prevent a recurrence of hacking. You receive the following email:

**From:** Geo Pataros, Chief Financial Officer

**To:** Senior Manager

**Subject:** investigation

Hi

I have attached the executive summary of an internal audit report into the unauthorised modification of our hoverboards. I was aware of the social engineering phenomenon, but I am shocked that it could work so effectively against us. Most, if not all, of our staff have access to data that is potentially sensitive.

I would like you to respond to this email with your opinion concerning three matters:

Firstly, recommend, with reasons, the controls that should be put in place to prevent Runnabout's employees being victims of social engineering.  
**[sub task (a) = 40%]**

Secondly, recommend tests that Runnabout's Internal Audit department might use to check that staff are complying with those controls.  
**[sub task (b) = 30%]**

Thirdly, evaluate the argument that any staff member who is found by our Internal Audit department to have been in breach of controls should be disciplined.  
**[sub task (c) = 30%]**

The executive summary referred to can be found by clicking on the Reference Material button above.

**Internal audit report into unauthorised override of hoverboard safety settings****Executive summary**

An internal audit team downloaded a copy of the software hack that has been used to make unauthorised modifications to hoverboards. This was found to be based on the actual software used by Runnabout's engineers for maintenance and repair purposes.

A criminal investigation by the Geeland Police Service resulted in the arrest of the software hack's creator. The Police investigation revealed that the software had been accessed and copied illegally through the use of a simple social engineering deception. The creator repeatedly phoned Runnabout's Capital City engineering team using the telephone number that is shown on the side of the maintenance team's vans. We provide that number so that users and members of the public can report faults with docks. The hack's creator spoke to several engineers, most of whom provided only limited information before becoming suspicious and terminating the call. After several attempts, the creator was able to convince one of our engineers that he was a software designer from the hoverboard's manufacturer and that he required access to the maintenance software used by Runnabout's engineers. The engineer then provided the hack's creator with the details required to access the software, including the username and password used by the members of the engineering team to access and download the software.

The software hack has been dealt with by replacing an electronic circuit in all of Runnabout's hoverboards so that the software hack will not run.

Reference Material

Pre-seen

Write your response to Geo Pataros in the box below:

**From:** Senior Manager**To:** Geo Pataros, Chief Financial Officer**Subject:** RE: investigation



Thank you for completing the Strategic Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.





## Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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1	60	1	2	(a) 40% (b) 60%
2	60	1	2	(a) 40% (b) 60%
3	60	1	2	(a) 50% (b) 50%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

 Reference Material Pre-seen

**Geo Pataros, Runnabout's Chief Financial Officer, asks you to join him in his office and hands you a letter:**

"This letter is highly confidential, it is subject to a strict non-disclosure agreement.

The Board is extremely interested in Steeltown City Council's proposed collaboration, but the directors are worried that Runnabout could face significant strategic challenges in meeting Steeltown's needs. We have considerable experience of establishing ourselves in traditional city centres, where there is a mix of pedestrians and motor vehicles and where our hoverboards operate alongside other modes of transport. In Steeltown we will be moving into a newly developed city centre from which motor vehicles will be banned.

The Board is also unsure about the strategic implications of agreeing not to operate in other towns within 30 miles of Steeltown, although Runnabout does not presently offer any services in Rivertown or anywhere else within the 30 mile radius, nor does the Board have any specific intention of us doing so in the foreseeable future.

I need you to draft a paper for me that covers two matters:

Firstly, identify and explain two major strategic challenges that we will face in meeting Steeltown's needs and recommend solutions.

**[sub task (a) = 40%]**

Secondly, evaluate the strategic implications for Runnabout of agreeing not to serve Rivertown or any of the other towns within 30 miles of Steeltown."

**[sub task (b) = 60%]**

**The letter referred to can be found by clicking on the Reference Material button above.**

## Steeltown City Council Tourism and Recreation

Ms Mei Yee,  
Chief Executive Officer,  
Runnabout,  
Capital City.

Dear Ms Yee

### Collaboration with Runnabout

I am writing to confirm our understanding of the discussions from our recent meeting.


- Steeltown is a city of 1.2 million people, located in the North of Geeland. This region has gone through a major economic redevelopment over the past 15 years, after the heavy industries that had previously sustained the regional economy relocated overseas. Steeltown is close to completing a major redevelopment that will create many new jobs in tourism, retail and financial services.
- Within the next year we will open a huge new city-centre shopping and commercial district. This will comprise shopping malls, several large office complexes and other attractions including theatres, concert halls and tourist attractions.
- We wish our new city centre to be an attractive place to work and visit. With that in mind, we will create the largest pedestrianised area in Geeland by banning motor vehicles (other than Police, Fire and Ambulance services) from 6.00 am until 11.00 pm. Public transport will terminate at a major rail and bus station on the edge of the city centre. There will be three large car parks, each located two miles from the city centre, from which motorists can continue their journeys to the city centre by rail, bus or on foot.
- We wish Runnabout to create a significant network of shared-hoverboard docks to serve the workers, shoppers and tourists who will populate our new city centre. We envisage docks located at car parks as well as the rail and bus station and also alongside shops, offices and other attractions. In addition, we wish you to consider offering a shared-bicycle service alongside hoverboards.
- We will appoint Runnabout as the sole provider of micromobility services. In return, Runnabout will agree not to provide any form of service to Rivertown, our nearby rival, or any of the other towns or cities within 30 miles of Steeltown.

Yours sincerely










*Nasreen Aslam Shah*










Chief Executive Officer




 Reference Material Pre-seen

Write your response to Geo Pataros in the box below.

       **B** *I* U   $x_2$   $x^2$  

Paragraph ▾  ▾        

 Reference Material Pre-seen

Two weeks later, Geo Pataros stops by your workspace. He places a report document in front of you.

"I have brought you a copy of a report prepared by Alan Peters. As you can see, Steeltown City Council wishes us to consider buying their public transport provider. We have not yet reached the point of discussing a price for this acquisition, but I would expect them to ask at least G\$800 million.

I need your help in drafting a briefing for the Board on this proposal.

Firstly, identify and explain the issues that we should consider when evaluating this acquisition opportunity.

**[sub task (a) = 40%]**

Secondly, evaluate the possibility that we might finance this acquisition by exchanging Runnabout shares for SCCT shares with Steeltown City Council, assuming that we agree to acquire SCCT."

**[sub task (b) = 60%]**

The report referred to can be found by clicking on the Reference Material button above.

**Meeting report by Alan Peters concerning micromobility services for Steeltown**

**Steeltown City Council represented by Nasreen Aslam Shah, CEO of Tourism and Recreation and Runnabout represented by Alan Peters, Director of Operations**

We discussed Steeltown's plans for transport across the whole city ("Greater Steeltown"), not just the city centre. Greater Steeltown's existing network of rail and bus services is well designed and efficient. Unfortunately, that network does not integrate well with the proposed plans for transportation within the city centre. For example, there are already fears that there is insufficient flexibility in providing transportation into the city centre itself, which means that the combined rail and bus station (which has already been built and is due to open soon) will become overcrowded at peak periods.

The City Council's plans for the city centre may also breach laws designed to protect the interests of disabled people, many of whom would be unable to ride a hoverboard or bicycle or walk significant distances. Many able-bodied commuters, shoppers and tourists might also resent being forced to walk or travel by bicycle or hoverboard.

I recommended that Steeltown should introduce an environmentally friendly city centre bus service that would use wheelchair-accessible electric buses to bring passengers directly into the city centre without calling at the main rail and bus station. The bus service could operate alongside Runnabout's city centre micromobility scheme, making frequent stops within the city centre to pick up and drop passengers. Such a bus service would not require any alterations to the public spaces in the city centre.

Public transport across Greater Steeltown is presently provided by Steeltown City Council Transport (SCCT), a company that is wholly owned by Steeltown City Council. SCCT owns the buses and trains that operate across Greater Steeltown, the railway tracks and buildings such as bus and train stations. SCCT has the sole right to operate public transport within Greater Steeltown. Unfortunately, the City Council has very little confidence in SCCT's senior management team.















Nasreen Aslam Shah asked whether Runnabout would consider buying SCCT and operating it as a 100% subsidiary to provide all public transport across Greater Steeltown, including the city centre. We would earn revenues from bus and train fares, including the new city centre electric buses and also from hire charges from our micromobility scheme. Steeltown City Council would pay us a subsidy on top of fares and hire charges that would be conditional on us providing an efficient and effective service. We would be free to appoint our own senior management, but could retain the drivers and other staff whom we would require in order to operate this service.




Reference Material





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Write your response to Geo Pataros in the box below.





Paragraph ▾

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 Reference Material Pre-seen

Two further weeks have passed. Runnabout's Board is actively considering the proposal that the Group will acquire a 100% holding in Steeltown City Council Transport (SCCT). Geo Pataros is leading the discussions on behalf of Runnabout's Board. You receive the following email:

**From:** Geo Pataros, Chief Financial Officer  
**To:** Senior Manager  
**Subject:** news article

Hi

I have forwarded you an article that went online this morning. Needless to say, it has caused a great deal of embarrassment both to Steeltown City Council and to Runnabout's Board. The story distorts the facts. As you know, we are in the process of negotiating a fair price for the company. We have yet to make a final decision on senior management. We plan to operate hoverboard and bicycle sharing alongside buses and trains, not instead of them.

The tablet computer belongs to Rana Smith, Runnabout's Deputy Operations Director, who accompanied me on a visit to Steeltown for meetings with executives from the City Council. The tablet is her own personal property. She uploaded some files and emails to it before travelling to Steeltown. We had a snack at the Luxe Hotel before travelling back to Capital City. The tablet was not in her briefcase when she got home, leaving her unsure whether it had been stolen from her or whether she had left it somewhere.

Mei Yee, Runnabout's CEO, has reminded me that we have a strict "zero tolerance" rule concerning data security and has warned me that Rana may face dismissal.

I need your advice on two matters:

Firstly, please recommend, stating reasons, the controls that Runnabout could put in place to prevent a recurrence of this loss of compromising data.

**[sub task (a) = 50%]**

Secondly, please advise, stating reasons, whether it would be unethical for Rana to defend herself against dismissal by arguing that she is a busy and hard-working executive.

**[sub task (b) = 50%]**

Geo

The article referred to can be found by clicking on the Reference Material button above.

# Steeltown News

## City Council Transport Bosses Face Redundancy Threat












Steeltown News has come into possession of a tablet computer that contains records of secret meetings concerning proposals to sell Steeltown City Council Transport (SCCT) to a commercial company. The tablet computer was found abandoned on a coffee shop table in Steeltown's Luxe Hotel. The machine was found by an unnamed member of staff, who left it with the Steeltown News' reception desk.











Steeltown News' Business Correspondent reviewed the files and concluded that the City Council plans to sell SCCT for a fraction of its true value. The new owner plans to dismiss SCCT's experienced management team and replace many of the bus and rail services with hired hoverboards.

Steeltown City Council's Press Office declined an invitation to comment on this story.

 Reference Material Pre-seen

Write your responses to Geo Pataros in the box below.

       **B** *I* U   $x_2$   $x^2$  

Paragraph ▾  ▾         



Thank you for completing the Strategic Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.





## Strategic Case Study Exam

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1	60	1	2	(a) 60% (b) 40%
2	60	1	2	(a) 40% (b) 60%
3	60	1	2	(a) 50% (b) 50%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.



 Reference Material Pre-seen

**Geo Pataros, Runnabout's Chief Financial Officer, stops by your workspace and hands you a report:**

"As you know, we had to buy a lot of new hoverboards just before the last year end and we are going to have to buy even more in the course of this year. As you can see from the engineering report, the lifespan of our hoverboards is decreasing.

We have not made these findings public because we do not wish to discourage users from using our hoverboards.

I need you to draft a paper that I can use to brief the Board.

Firstly, please explain why Runnabout's Board should manage the lifespan of the hoverboards as a critical success factor and explain how it should do so.

**[sub task (a) = 60%]**

Secondly, please assess the impact, if any, that these declining useful lives will have on our share price, stating reasons. Remember that we do not intend to make any form of public announcement about this matter."

**[sub task (b) = 40%]**

**The report referred to can be found by clicking on the Reference Material button above.**

## Engineering report on hoverboard replacements

### Executive summary

The specifications provided by Minnerring Robotics, who manufacture our hoverboards, indicate that Runnabout's hoverboards should have an expected useful life averaging 2,400 journeys or 480 days.

In practice, we often have to scrap and replace hoverboards after only 1,200 journeys and fewer than 10% of our machines last for 2,000. We achieved an average life of 1,840 journeys when we started renting hoverboards four years ago. By last year, that had declined to 1,780 journeys and now it is 1,680. We are satisfied that Minnerring's build quality has not changed over the years.

Runnabout's engineering staff have dismantled 100 of the hoverboards that were taken out of service. The causes of premature failure are consistent with the following:















- Some of our users overload our hoverboards.
- Many of our users force our hoverboards to travel as fast as possible for the duration of their journey, even though that causes the battery to overheat and suffer long-term damage. There is also evidence that users are riding over kerbs when they are crossing roads, which can distort and break boards.

It should be borne in mind that these machines were designed to be used by trained users who were expected to operate their hoverboards indoors and on flat surfaces such as factory floors or airport concourses.


Reference Material





Pre-seen



Write your response to Geo Pataros in the box below.





Paragraph ▾

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Reference Material

Pre-seen

Two weeks later, Runnabout's Board is still considering the implications of the decreasing life expectancy of its hoverboards. You receive the following email:

**From:** Geo Pataros, Chief Financial Officer

**To:** Senior Manager

**Subject:** hoverboard supplier

I have attached a news report that raises some concerns. We have a large order outstanding with Minnerring Robotics ("Minnerring") that is priced in D\$. Minnerring is based in Deeland and insists on invoicing in its home currency, which is the D\$. We had expected to pay G\$1,000 million to settle this purchase, but the 12% increase in the value of the D\$ will increase that to G\$1,120 million. We will have to settle that transaction in about two months.

We will have to place at least two further orders for new hoverboards within the next twelve months.

Runnabout's Board had serious concerns about buying hoverboards exclusively from Minnerring, even before the emergence of these currency concerns. We have identified other potential suppliers of good quality hoverboards, although none of those are competitive with Minnerring on either price or quality. None of those suppliers is based in either Geeland or Deeland.

I need you to draft a paper for me to present to the Board:

Firstly, identify the challenges associated with evaluating the currency risks associated with continuing to trade with Minnerring and explain their significance.

**[sub task (a) = 40%]**

Secondly, ignoring the currency risks, assess the strategic implications of relying exclusively on Minnerring for replacement hoverboards.

**[sub task (b) = 60%]**

Geo

The news report referred to can be found by clicking on the Reference Material button above.

# Geeland Telegraph

## Deeland election surprise

The Deelandian Pro-Business party scored a surprise victory in yesterday's general election. It had been expected that the anti-business Deelandians First party would be returned to power, albeit with a reduced majority.

Shares on the Deeland Stock Exchange leapt up in response to the news.















The newly elected Finance Minister announced that interest rates would reduce within weeks, although she was unwilling to admit to the precise change that was expected.

The currency exchanges reacted to this news. The D\$ increased by 12% against the G\$.


Reference Material





Pre-seen



Write your response to Geo Pataros in the box below.





Paragraph ▾


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 Reference Material Pre-seen

A month has passed. Geo Pataros asks you to join him in his office. He hands you a news report:

"We have modified our hoverboards in Western City on a trial basis to prevent problems with unsafe and irresponsible riding that is shortening the lives of our hoverboards. The manufacturer's recommendation is that the maximum safe weight is 110 kg. In order to reduce wear on our hoverboards we have added a weight sensor to each board that detects loads in excess of 95 kg. This sensor also detects when hoverboards are ridden over kerbs and similar obstacles. The hoverboards' onboard computers have been reprogrammed to stop machines that violate either of these conditions. They have also been reprogrammed to slow hoverboards down when their riders ignore battery temperature alarms.

There is no discrimination. We have always warned users that the hoverboards cannot carry loads of more than 95 kg and now have the means to enforce it.

I need you to draft a paper for me:

Firstly, assess, stating reasons, whether the modifications of our hoverboards in Western City are unethical.

**[sub task (a) = 50%]**

Secondly, recommend, with reasons, whether the risk committee should evaluate the results of this trial before deciding on whether the modifications should be applied to all of Runnabout's hoverboards."

**[sub task (b) = 50%]**

The news report referred to can be found by clicking on the Reference Material button above.

# Geeland Daily News

## Runnabout discriminates in favour of thin customers



Runnabout, the shared-hoverboard operator has been inserting “spy chips” into its machines, without telling its customers. The modifications enable the company to weigh its users when they step on to one of its hoverboards. Users who weigh more than 95 kg (including their clothing and any baggage) are sent a message on the screen of the hoverboard’s control panel, saying that the hoverboard must be replaced in its dock immediately or a charge will be made for its rental. The user has little choice but to replace it because the

hoverboard will already have been deactivated.

Some users have also complained that hoverboards are slowing down and even stopping altogether during their hire. Some complain that they have come close to being run over when their hoverboards have slowed down unexpectedly while crossing busy roads.

A spokesperson for Runnabout admitted that some of the company’s hoverboards had been modified recently but refused to explain what modifications had been carried out.

Reference Material

Pre-seen

Write your response to Geo Pataros in the box below.

Rich text editor toolbar with the following icons: Undo, Redo, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, Text Color, Paragraph, Table, Bulleted List, Numbered List, Indent Left, Indent Right, and a Subscript button.

Subscript



Thank you for completing the Strategic Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.



## Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.





This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-tasks	% time to spend on each sub- task
1	60	1	2	(a) 60% (b) 40%
2	60	1	2	(a) 50% (b) 50%
3	60	1	2	(a) 60% (b) 40%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

 Reference Material Pre-seen

You receive the following email:

**From:** Geo Pataros, Chief Financial Officer

**To:** Senior Manager

**Subject:** Data breach

Hi

I have forwarded an email from Runnabout's IT Director.

The CEO has called an emergency Board meeting. I require your advice on two matters:

Firstly, explain the actions that Runnabout could take in response to the data breach and also explain any strategic implications the actions might have.

**[sub-task (a) = 60%]**

Secondly, recommend with reasons the objectives that Runnabout's Board should set for Lim Sheng Yang, Runnabout's Head of IT Security, for the first 24 hours following the discovery of the breach.

**[sub-task (b) = 40%]**

Geo

The forwarded email referred to can be found by clicking on the Reference Material button above.

**From:** Shaun McDougall, IT Director  
**To:** All directors  
**Fwd:** Possible data breach

Hi

Please find below an email that requires our immediate attention.

Shaun

**From:** Lim Sheng Yang, Head of IT Security  
**To:** Shaun McDougall, IT Director  
**Subject:** Possible data breach



Hi Shaun

I have had a disturbing telephone call from our engineering teams in several cities. We have had many complaints this morning about users using the Runnabout App on their mobile phones to rent hoverboards, but not receiving the code that they required to release the machines from their docks. Almost all used the Runnabout App to query this and were automatically redirected to a bogus website that appeared to have been created by Runnabout and that told them that there was an ongoing security alert. The website asked that they verify their identities using their Runnabout usernames, their Runnabout passwords and the 3-digit validation codes on the backs of their credit cards.

My security team has noted a significant number of user accounts being accessed online since the start of this morning's rush hour. These access requests have been made using valid usernames and passwords. User accounts contain personal information, including addresses, credit card numbers (but not the three-digit credit card validation codes) and dates of birth.

It seems likely that criminals have been using portable radio equipment to interfere with users' mobile phone signals in the vicinity of busy hoverboard docks. The equipment required to do so would be portable and inexpensive. They would then be able to use the information to access personal data stored in user accounts.

Lim

 Reference Material Pre-seen



Write your response to Geo Pataros in the box below.

**From:** Senior Manager

**To:** Geo Pataros, Chief Financial Officer

**Subject:** RE: Data breach



 Reference Material Pre-seen

Four hours later, Geo Pataros returns from the Board meeting that was called to discuss the possible data breach. He asks you to join him in his office and hands you a document.

"I have brought you an extract from the minutes of this morning's Board meeting. I need you to draft a paper for me that I can take to the next Board meeting:

Firstly, assess the long-term impact that this data breach will have on Runnabout's share price.

**[sub-task (a) = 50%]**

Secondly, evaluate the possible criticism that the data breach arose because of poor governance by the Board."

**[sub-task (b) = 50%]**

The extract from the Board meeting minutes referred to can be found by clicking on the Reference Material button above.





**Extract of emergency Board meeting**

Shaun McDougall, IT Director, updated the Board. It has now been confirmed that 180,000 user accounts were accessed this morning. It is unusual for there to be more than 200 accounts accessed early on a workday morning.










Access to user accounts was suspended immediately after the Head of IT Security suspected that there had been a data breach.










Our user services department is currently drafting an email that will be sent to each of the users whose accounts were accessed. It will warn that their personal data may have been accessed, including their postal address, credit card number and date of birth. The email will also advise them to seek advice from their bank if they had input their three-digit credit card validation number into the fake website. Runnabout does not keep a record of the validation number, so it cannot be obtained by breaching user accounts.



The Board debated suspending hoverboard rentals but decided instead to email all users to warn them that there had been some "IT problems" and advise them that the Runnabout App would never ask for personal information such as credit card validation numbers.

 Reference Material Pre-seen

Write your response to Geo Pataros in the box below.

       **B** *I* U   $x_2$   $x^2$  

Paragraph         

 Reference Material Pre-seen

**A month later, there has been no recurrence of the data breach. Geo Pataros stops by your workspace and hands you a letter.**

"Mei Yee has spoken to a consultancy firm that has a good reputation. I have brought you a copy of their proposal.

As you can see, it will be expensive to use them and they will also insist on invoicing us in their home currency, which is the E\$. Their local economy is quite weak.

I need your advice on two matters:

Firstly, I need you to evaluate the claim by Diamond Chip that it can prevent any further unauthorised access to Runnabout's system.

**[sub-task (a) = 60%]**

Secondly, I need you to identify the currency risks that we will face as a result of this agreement and to provide your recommendation concerning the management of those risks."

**[sub-task (b) = 40%]**

**The letter referred to can be found by clicking on the Reference Material button above.**

## Diamond Chip Security

Mei Yee  
Chief Executive Officer  
Runnabout  
Capital City

Dear Mei Yee

### Proposed consultancy agreement

It was a pleasure to meet with you and to discuss your cybersecurity needs following Runnabout's recent data breach. As discussed, Diamond Chip is Eastland's foremost cybersecurity company. Our consultants are acknowledged experts, having been recruited from military and intelligence service backgrounds.

- We propose that we will design and install a security system that will prevent any further unauthorised access to Runnabout's data.
- We will conduct an annual review and will upgrade the system in response to emerging threats.
- In the interim, we will conduct penetration tests that will involve our consultants attempting to obtain unauthorised access to your files. We will report on our findings and will remedy any vulnerabilities that our tests reveal.

Our charges will be as follows:



- Initial design and installation E\$600 million (equivalent to G\$400 million at current exchange rates and payable on completion in three months).
- Annual review and upgrade E\$240 million (equivalent to G\$160 million at current exchange rates and payable one month after completion of the review).
- Penetration testing and responses E\$75 million per month (equivalent to G\$50 million at current exchange rates and payable monthly in arrears).

We look forward to doing business with you.










Yours sincerely,










*Nikunj Bhayini*

Nikunj Bhayini  
Chief Executive Officer

 Reference Material Pre-seen

Write your response to Geo Pataros in the box below.

       **B** *I* U   $x_2$   $x^2$  

Paragraph         





Thank you for completing the Strategic Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.



## Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.



Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-tasks	% time to spend on each sub- task
1	60	1	2	(a) 60% (b) 40%
2	60	1	2	(a) 40% (b) 60%
3	60	1	2	(a) 50% (b) 50%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

 Reference Material Pre-seen

**Geo Pataros, Chief Financial Officer, asks you into his office:**

"I have brought a copy of an executive report prepared by Shaun McDougall, Runnabout's Director of IT.

I have spoken to Shaun briefly. He has recently begun to contact cloud services providers, but he has rejected any that are based in Geeland because he believes that foreign providers are generally less expensive and offer a better quality of service. He expects to recommend a foreign provider. I have made some enquiries of my own and I would expect a foreign cloud services provider to charge us in its home currency.

I need you to draft a paper that covers:

Firstly, identify and assess the strategic implications for Runnabout of transferring our IT system from in-house to a cloud services provider.

**[sub-task (a) = 60%]**

Secondly, identify and assess the currency risks that would arise specifically from the use of a cloud services provider that is invoiced in a foreign currency. Please also suggest how the currency risks could be mitigated."

**[sub-task (b) = 40%]**

**The executive report referred to can be found by clicking on the Reference Material button above.**

**Report on Runnabout IT system**

**Prepared by Shaun McDougall, IT Director**

**Executive summary**

Runnabout has two major data centres: a primary processing facility and a hot backup. The primary data centre is located on the outskirts of Capital City. It maintains user accounts and manages hoverboard hires and charges. The hot backup is located in Western City and is used to back up all files maintained at the primary facility in real time.

The primary facility is in need of an upgrade. We wish to add some additional features to the software that is used to predict hoverboard numbers at various docks. That software is processor intensive. We also need to upgrade the hot backup system because it is already close to full capacity and could not cope with the additional demands arising from the expansion of the primary facility.

Runnabout employs a large number of IT professionals, such as programmers and analysts, as well as IT technicians and IT engineers. The IT professionals maintain and update Runnabout's software, including the App that enables users to update their records and hire hoverboards. The technicians and engineers monitor and maintain the hardware at the data centres and their network connections. The data centres are linked to one another by high speed telephone lines. The data centres also use a combination of telephone lines and mobile phone networks to communicate with the docks and with users' Apps.















IT is a significant cost centre for Runnabout. It has been estimated that 14% of total operating costs are attributable to IT.

I propose that we consider switching our data storage and processing to a cloud services provider. I will ask my staff to make an immediate start on the preparation of a shortlist of potentially suitable providers.







[📖 Reference Material](#)[📖 Pre-seen](#)



Write your response to Geo Pataros in the box below.







Paragraph ▾

Table ▾









A month later, Runnabout's Board is still actively considering the question of shifting the IT system to a cloud services provider. You receive the following email:

**From:** Geo Pataros, Chief Financial Officer  
**To:** Senior Finance Manager  
**Subject:** Moving to the cloud

Hi

The Board is close to reaching a decision on moving our IT to the cloud. It doesn't help that this is a controversial issue. The attached news report indicates the government's position, which won't be helped if we proceed because we will lose 750 IT jobs.

I need you to help me prepare a briefing for the Board that covers two matters:

Firstly, we provide micromobility in 15 different cities, each of which is governed by its own locally elected city council. Please evaluate the role that the city councils might play as stakeholders in our decision to move to the cloud.

**[sub-task (a) = 40%]**

Secondly, if we move to the cloud then we will release a significant amount of cash from the disposal of our data centres. The Board is considering increasing this year's dividend to 40% more than last year's. Evaluate the implications of making such a dividend payment, bearing in mind that we would expect future dividends to revert to normal levels.

**[sub-task (b) = 60%]**

Geo

The news report referred to can be found by clicking on the Reference Material button above.

# Geeland Telegraph



## Business News












### Government promises to restrict export of data










Geeland's Industry Minister spoke out against the tendency to shift data storage to cloud services providers in foreign countries. She expressed concern at the loss of jobs in IT, as well as the loss of control over personal data.

She said that the Government is in the process of drafting strict new laws that will make company directors responsible for safeguarding details concerning Geeland citizens, regardless of the location of the computers on which that data is stored.



 Reference Material Pre-seen

Write your response to Geo Pataros in the box below.

       **B** *I* U   $x_2$   $x^2$  

Paragraph         



 Reference Material Pre-seen

Six months have passed. Runnabout has transferred its data processing and storage to Cloudharr, a cloud services provider. Geo stops by your workspace and hands you a document:

"I have brought you an extract from yesterday's Board meeting minutes.

I have had several Board members ask me for clarification and I wish you to draft a briefing on the following matters:

Firstly, recommend the disclosures that we should make in Runnabout's annual report on principal risks with respect to our switch to Cloudharr.

**[sub-task (a) = 50%]**

Secondly, evaluate the argument that Runnabout's Board should be held accountable for the security of data held by Cloudharr."

**[sub-task (b) = 50%]**



The extract from the Board meeting minutes referred to can be found by clicking on the Reference Material button above.












**Extract from Board minutes**










The Board expressed its thanks to Shaun McDougall, Director of IT, for his hard work in moving Runnabout's IT function to Cloudharr, a cloud services provider. Cloudharr was established five years ago and it has grown steadily since. It is based in the country of Northalia, which has excellent infrastructure to support data processing operations.

Mr McDougall delivered a briefing on some of the implications of the switch to the cloud. These included the fact that Cloudharr paid an independent accounting firm to investigate and report on the security and control systems that operate within Cloudharr's data centres. As is common in this industry, Cloudharr does not permit its clients to conduct their own investigations.

 Reference Material Pre-seen

Write your response to Geo Pataros in the box below.

       **B** *I* U   $x_2$   $x^2$  

Paragraph ▾  ▾        



Thank you for completing the Strategic Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.



## Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.



This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-tasks	% time to spend on each sub- task
1	60	1	2	(a) 60% (b) 40%
2	60	1	2	(a) 60% (b) 40%
3	60	1	2	(a) 50% (b) 50%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.



 Reference Material Pre-seen

**Geo Pataros, Chief Financial Officer, asks you into his office. He hands you a document:**

"Mei Yee, Runnabout's CEO, gave me this briefing document. She had just returned from a meeting with Coastland's Minister for Tourism, who wished to propose that Runnabout would install docks and hoverboards along the seafronts of all of the major tourist resorts in Coastland. The Minister believes that a shared-hoverboard service would attract younger tourists to the country's coastal resorts. It would also encourage fresh investment in hotels, shops and restaurants because most investors are unwilling to build unless they can offer tourists a sea view and most existing sea fronts are too long to explore comfortably on foot. If we agree to this proposal, it will be our first overseas venture.

I need you to draft a paper that I can use to brief the Board:

Firstly, identify the main challenges associated with evaluating the suitability of this proposal as a strategic business opportunity for Runnabout and recommend how we might overcome those challenges.

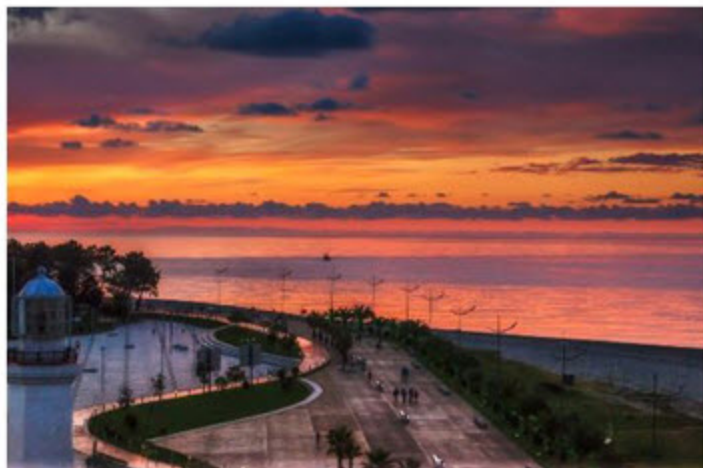
**[sub-task (a) = 60%]**

Secondly, identify and evaluate the business risks that Runnabout will face in operating a shared-hoverboard service in Coastland and recommend how they might be managed."

**[sub-task (b) = 40%]**

**The briefing document referred to can be found by clicking on the Reference Material button above.**

## Coastland Tourist Board





Coastland is a large tropical island state that has a pleasant climate throughout the year. The country's economy is based on tourism, commercial fishing and agriculture.

It is popular with older tourists who are seeking peace and quiet.










The tourist industry is spread across Bluetown, Coastland's capital city, and several other major coastal towns. The tourist resorts are well-developed and have long and attractive seafronts.













The interior of the island is mountainous but has been developed for agriculture. Many tourists visit the interior to enjoy the cooler air and to follow the numerous foot paths that link the towns and villages.



 Reference Material Pre-seen

Write your response to Geo Pataros in the box below:

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Paragraph          



 Reference Material Pre-seen

A month after the discussion with the Minister of Tourism, Runnabout's Board is still actively considering the question of expanding into Coastland. You receive the following email:

**From:** Geo Pataros, Chief Financial Officer

**To:** Senior Finance Manager

**Subject:** Expansion into Coastland

Hi

I have attached a news report that I downloaded earlier today.

When we applied for permission to install hoverboard docks we discovered that Coastland law bans the use of any motorised vehicle on pavements and in pedestrianised areas, even battery-powered hoverboards that have been restricted to travel at no more than 6 miles per hour.

We have engaged a firm of professional consultants based in Coastland to assist us in persuading the Coastland Government to change the law. The consultants were unable to persuade the Minister for Transport to consider an immediate change in the law, so they briefed an opposition member of parliament who raised the question in Parliament.

I need you to draft a paper for me covering:

Firstly, identify, with reasons, the main stakeholders that we need to engage with and recommend the approach that we should take to dealing with them.

**[sub-task (a) = 60%]**

Secondly, evaluate the ethical implications of Runnabout's attempts to change Coastland law relating to the use of hoverboards.

**[sub-task (b) = 40%]**

Geo

The news report referred to can be found by clicking on the Reference Material button above.

# Coastland Times

## Minister of Transport criticised over reluctance to change the law relating to hoverboards





A heated argument broke out in Coastland's Parliament yesterday after a member of the main opposition party, whose constituency is dependent on tourism, asked the Minister for Transport to comment on reports that he had refused to change the law to permit hoverboards to be ridden on pavements and pedestrianised areas.










The Minister for Transport replied that the matter was still being considered and that no final decision had been reached. That prompted the Minister for Tourism to request an urgent and positive decision. The Minister for Tourism stated that the Minister for Transport's hesitation was endangering a project that could offer a massive boost to Coastland's tourism industry.










The leader of Coastland's main opposition party criticised the Ministers for failing to agree on this important matter and commented that their indecision was likely to cost jobs in the tourist industry.





 Reference Material Pre-seen

Write your response to Geo Pataros in the box below.

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Paragraph ▾  ▾        

 Reference Material Pre-seen

Six months have passed. Runnabout has failed to negotiate a change to the law in Coastland and has abandoned the proposal to establish operations there.

Geo stops by your workspace and hands you a document:

"I have brought you an extract from yesterday's Board meeting minutes.

I have had several Board members ask me to clarify some issues and I wish you to draft a briefing on the following matters:

Firstly, explain whether an analysts' briefing could affect Runnabout's share price despite the non-disclosure agreements signed by the analysts.

**[sub-task (a) = 50%]**

Secondly, advise the Board on whether it is acceptable for the Non-Executive Chairman to refuse the Board the opportunity to vote on a proposal."

**[sub-task (b) = 50%]**

The extract from the Board meeting minutes referred to can be found by clicking on the Reference Material button above.



**Extract from Board minutes**

The Board discussed a recent article in the Business Section of the Geeland Telegraph that criticised Runnabout's Board for losing its initiative. The article used publicly available information to support an argument that Runnabout was not expanding and that there was little prospect of growth in profits. The newspaper article described the failed attempt to expand into Coastland as "an act of desperation by Runnabout's Board". It was pointed out that Runnabout's share price had remained unchanged for the past five months.










Mei Yee, Runnabout's CEO, proposed that the company should conduct an analysts' briefing. That would involve inviting the senior investment analysts with an interest in Runnabout and other service and transportation companies to a secure location for a detailed briefing on the company's planned announcements for the next six months. That would include details of new services that will be launched before the end of the year and budgeted results. The analysts would be required to sign non-disclosure agreements before attending.










Analysts' briefings are relatively common in Geeland, although Runnabout has never held one.

Jack Avery, Runnabout's Non-Executive Chairman opposed the proposal, arguing that the briefing would require a significant amount of time and effort to plan and conduct. He was also sceptical of the value of providing investment analysts with confidential information that they were forbidden from disclosing to their clients. Mr Avery said that he would not permit a briefing to proceed and he brought discussion to a close without permitting a vote on the matter.

 Reference Material Pre-seen

Write your response to Geo Pataros in the box below.

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Paragraph ▾  ▾        



Thank you for completing the Strategic Case Study Exam.

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## **STRATEGIC CASE STUDY MAY–AUGUST 2020** **SOLUTIONS**

### **Variant 1**

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*CIMA will not accept challenges to these answers on the basis of academic judgement.*

#### **Section 1**

##### **Requirement 1 – key stakeholders**

CCSS and its counterparts have both high interest and high power.

The high interest arises because they have a responsibility to manage and protect street safety. Preventable accidents reflect badly on them. The high power arises from the fact that the local governments in each city have the ability to restrict the use of hoverboards or even ban them completely. The Street Safety Departments will have little direct interest in the free and rapid flow of people on the pavements and so they will have little direct concern if hoverboards are banned in the interests of public safety. Runnabout should work to reassure these Departments that it will modify or adapt its hoverboards to prevent any recurrence of these modifications or, indeed, any other modifications that might be carried out. In the short term, it may be advisable for Runnabout to suspend services for a month until the ability to modify hoverboards has been eliminated.

The emergency services, particularly ambulance and police, have a high interest in these accidents because they consume resources when attending and investigating incidents. They have little direct power; the ambulance service is required to assist injured pedestrians regardless of the cause of their injuries and the police can only act if the law has been broken. Both services can, however, push national or local lawmakers for changes. Public sympathy would tend to support any such request. Runnabout should liaise with the emergency services, briefing them on the action that will be taken and asking whether there is anything further that might be done. It may be preferable to ensure that the emergency services are satisfied, even if that would make hoverboards less attractive to users.

The insurance company has both high interest and high power. The high interest comes from the fact that it must settle any insured losses and so there is potentially a significant financial loss if accident rates increase. The high power comes from the fact that the insurer might dispute liability because these accidents appear to have been the result of unauthorised modifications. Even if the question of liability is unclear, the insurer may deny liability in the first instance in order to force Runnabout to negotiate and possibly

accept a reduced sum rather than risk the cost and uncertainty associated with taking court action. The insurer will also be in a position to increase the premium paid by Runnabout. It would be impossible to trade in this business without insurance, so Runnabout would be forced to pay. It would be preferable for Runnabout to take a proactive approach to working with the insurance company to resolve matters, seeking to compromise over the wording and interpretation of the cover being provided.

Runnabout's users will probably be the most difficult stakeholder to deal with because there will be several groups, each with its own interest and power. Those users who modified the boards, either to speed up their daily commute or simply for the excitement of travelling at full speed, will be disappointed if the boards are modified to prevent this from happening. The other users will probably be indifferent because they do not wish to travel at excessive speed. The power of users varies according to the extent to which they are willing and able to use alternatives to hoverboards. Some users would effectively have little choice but to tolerate whatever modifications are made to Runnabout's hoverboards, while others may decide to switch to, say, shared-bicycle services instead. Arguably, Runnabout can do little to negotiate with users who might switch because the other stakeholders will undoubtedly demand that the hoverboards be modified so that restrictions on speed cannot be cancelled.

## **Requirement 2 – risk register**

It could be argued that the Board has a collective responsibility for all risks that affect Runnabout and so the suggestion that four directors should share this risk may be realistic. The fact that the company was faced with an unexpected software challenge in this instance does not mean that future modifications will take the same form, so it may be desirable for staff from all backgrounds to be aware of the threat and to act accordingly. There may be a greater chance of uncovering problems before they become too serious if managers from all backgrounds are expected to share this responsibility and are actively looking for problems with hoverboards.

There is a danger that the assumption underlying this argument will prove to be unduly optimistic. Managers may not be alert to the threat of modification because they believe that colleagues from other functions will be better placed to look for it instead. There could be a risk of warning signs being overlooked or even ignored altogether and then managers wasting time in blaming colleagues for this failure.

The whole point of risk ownership is to ensure that there is a designated person or department that is responsible for dealing with a particular risk. Imposing a responsibility on a reluctant management team will still create a duty to monitor the threat, even if managers are concerned that they may be unable to do so effectively. Imposing this duty will force managers to take time out from other responsibilities to ensure that they are satisfied that unauthorised modifications are not a serious matter.

The response of the directors is disappointing and their attitude should not be encouraged. If the directors are unwilling to accept responsibility at an executive level then the managers who report to them may take the same view, which could lead to an inadequate response to the risk. If senior managers demonstrate a lack of commitment to the management of this risk then it is unlikely that their subordinates will.

## **Section 2**

### **Requirement 1 – share price**

The most immediate implication is that the shareholders may become discouraged because of the sudden and significant decline. A shareholder who had held Runnabout shares previously valued at, say G\$10,000, will now own shares valued at only G\$7,500, which could lead to the shareholders attempting to press the directors into finding an immediate response that restores the value of their shares. The shareholders may believe that the directors have been negligent in their management of the company and so they may start to think about a change in leadership. Even if the shareholders are not actually thinking in those terms, the directors may be concerned that their jobs are under threat and so they may be tempted to offer an urgent response that may not be fully thought through.

The fact that the fall in the share price has persisted for two days suggests that this is not a speculative “blip” arising from the concerns about the accident rate. It would appear that the stock market is concerned that future cash flows will be adversely affected by this news. If that is not the case, then Runnabout’s Board could ensure that the shareholders are aware that the problems with the hoverboards can be remedied to the satisfaction of the city governments involved. If the capital markets can be reassured, then the share price will recover quickly.

The decrease in the share price will not have any direct impact on the company itself. The decrease is a loss to the shareholders. The decline in the share price reflects an increase in the cost of equity, so any future projects that will be financed by equity will have to deliver a higher return. The decline in valuation could, however, reflect the cost of any modifications or other actions that Runnabout will have to put into place in order to rectify its assets. If the markets were able to foresee a need to implement a programme of modifications to hoverboards or docks, then the cost of those modifications would have an immediate impact on the share price.

Runnabout could face the threat of a takeover if the shareholders are nervous about the future. The fall in share price means that anyone wishing to acquire a controlling interest will be able to do so for 25% less than would have been the case two days ago. It may also be possible to add further discouragement to the news and push the share price down even further. Runnabout could lose its independence and the Board could face replacement.

### **Requirement 2 – captive insurance company**

A captive insurer could reduce operating costs significantly because the cost of insurance is high at present. The insurer’s premium covers both the high level of the insured risk and also the need to make a profit on top of recovering expected costs. The creation of a captive insurer will enable Runnabout to obtain cover at its cost price, which should reduce the overall cost, provided there are no major unforeseen losses. The savings will enable Runnabout to maintain hire charges and so remain competitive with other forms of micromobility and public transport.

The captive insurer will give Runnabout much greater flexibility in terms of developing or modifying services. At present, the third-party insurance company might refuse to maintain cover if it is unsure about the consequences of any changes, whether planned or unplanned. The insurer's threat to increase its premium by 40% demonstrates the potentially disproportionate response to any changes in the risk profile of Runnabout's services. A captive insurer means that Runnabout will have a guarantee of the cover that it needs in order to be permitted to operate on public streets.

Runnabout may face regulatory problems in terms of obtaining the necessary licences and permissions required to operate an insurance company. There would be significant costs in terms of time and money in order to recruit suitably qualified management and staff. The various city authorities would undoubtedly have to accept the insurance arrangements as adequate before they would permit Runnabout to operate, which could require time and effort to support the authorities' due diligence before permitting Runnabout to proceed. The loss of key staff could also put Runnabout's status as an insurance company in some doubt.

Runnabout could face a catastrophic risk in the event of a significant number of unexpected claims against the internal insurer. At present, the third-party insurer must settle all insured losses arising throughout the life of the policy at no immediate cost to Runnabout. If Runnabout self-insures then it will be directly liable for any unexpected increase in accident rates or damage. Even so, that risk can be mitigated by Runnabout's ability to manage users' behaviour and, ultimately, to suspend services temporarily in order to deal with threats.

### **Section 3**

#### **Requirement 1 – social engineering**

In this context, social engineering is essentially about having the ability to make contact with staff and influence them into revealing passwords and other information that could be used to obtain unauthorised access.

The most direct control would be to ensure that all staff are aware of the threat of social engineering and should be trained to deal with it. Ideally, all staff should receive training before they are granted any form of access to IT systems and that training should be refreshed, say, every two years. The training should warn staff that colleagues have no legitimate reason to request passwords, even if they are responsible for systems. Runnabout should make its staff personally responsible for any unauthorised access using their passwords in order to reinforce the need to maintain confidentiality.

Social engineering often relies on an intruder being able to create the impression that he or she works for the organisation. Anything that might validate a contact made from outside should be kept confidential as far as possible. For example, the internal telephone directory could be abused because it would enable an outsider to telephone a named individual and start a dialogue that could be convincing. Documents such as staff lists and telephone directories should be kept on secure web pages that require valid user names and passwords to access.

Staff should be discouraged from revealing that they work for Runnabout in their social media profiles and posts because that could provide outsiders with insights that could make it easier to trick them into believing that they are colleagues. It should also be forbidden to use Runnabout staff email addresses for personal business because that could provide yet further access to outsiders. Staff should be required to report any suspicious contacts that suggest that an attempt is being made to penetrate the company's systems so that vigilance can be increased. Staff should be trained not to respond to suspicious emails or to click on any links that they contain in case that confirms to the outsider that they have a valid email address.

#### **Requirement 2 – internal audit**

The Internal Audit Department should be able to examine files and documents to ensure that training is being provided and that staff acknowledge their responsibilities. For example, Runnabout should ask staff to sign an acknowledgement that they are aware of the need to safeguard their passwords and internal audit should review documents for a random sample of staff to ensure that they have signed. There should also be evidence that staff have completed training on schedule. The simplest way to do that would be to offer online training that is supported by objective test questions after each section has been read. Runnabout's internal auditors should be able to select a sample of staff and check that they have completed the training and achieved a satisfactory pass.

Runnabout's internal auditors might conduct online searches of social media sites using accounts created for test purposes. Inputting "Runnabout" into a site's search engine might pick up a large number of posts by users, but it would not take long for the members of the audit team to read through those in order to check whether they appear



to be posts by Runnabout staff. The audit team might search on “@runnabout.com” in order to identify any cases of staff using their work email addresses for personal business.

The most complex audit test would be to conduct a penetration test on Runnabout’s systems. That would involve members of Internal Audit contacting staff by phone or by email to ask for usernames, passwords or other useful information. If the Internal Audit Department succeeded in gaining access then the controls are not acting properly and further work will be required. Regardless of the outcome, Runnabout’s staff should be informed of the results, partly as a deterrent against releasing information in the future, for fear of being caught by Internal Audit conducting a repeat penetration test.

### **Requirement 3 – disciplinary action**

It is important that all staff are aware that Runnabout’s Board regards any control breaches as a serious matter. It may be sufficient for the supervisors of the departments that have been audited to be made aware of any failures and for them to be made responsible for counselling the staff who were responsible for breaches. The most important issue is to communicate the fact that compliance is scrutinised and taken seriously and that any breaches will be followed up.

There is a risk that a disproportionate response to any breach will lead to staff becoming demotivated and possibly even leaving. Experienced staff may be at greater risk of overlooking rules and procedures because they may become overfamiliar and overconfident. Those are precisely the staff whom Runnabout’s Board should aim to retain and encourage to use their strengths to the best of their abilities.

Runnabout’s Board should also aim to prevent Internal Audit from becoming associated with disciplinary action, otherwise staff may not cooperate during Internal Audit investigations. The focus of any response to compliance failures should be to point out any shortcomings and recommend an appropriate remedy for the future. Disciplinary action would only be necessary in the case of repeated or malicious misbehaviour or a refusal to comply with requirements in the future.

## **STRATEGIC CASE STUDY MAY–AUGUST 2020** **SOLUTIONS**

### **Variant 2**

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*CIMA will not accept challenges to these answers on the basis of academic judgement.*

#### **Section 1**

##### **Requirement 1 – strategic challenges**

Runnabout will find it difficult to plan the scale of investment that is required to meet Steeltown's needs because this will be the first time that Runnabout has been the sole provider of transportation. Runnabout's reputation will be at risk if it provides insufficient capacity because the new city centre is likely to attract a great deal of publicity and any failure to meet the needs of residents and visitors will undermine Runnabout's credibility. Excess capacity will involve a cost that will result in a poor return on capital, which will eventually find its way into the group's financial statements and so the share price may decline.

One response to this challenge would be to focus on the provision of adequate docks in areas that are likely to create significant demand. Locations such as the rail and bus station are likely to create the greatest demand, which suggests that Runnabout should ensure that there is plenty of dock space. Runnabout could then reach an agreement with the hoverboard supplier to make a significant delivery of hoverboards in time for the launch, with flexibility in placing further orders in the following months. If Runnabout finds that it has too many hoverboards at Steeltown then it could relocate them to other cities where they can be used as routine replacements to deal with wear and tear.

The second major challenge arises from the fact that Steeltown intends to have a completely pedestrianised city centre. Runnabout's business strategy requires it to ensure that users can rely on there being sufficient hoverboards at their point of origin and docking space at their final destination. Users tend to drift from the rail and bus station and from the car parks during the morning rush hour and in the opposite direction in the evening, which means that Runnabout must operate vans to relocate hoverboards from docks that are nearly full to others that are almost empty. If Runnabout cannot relocate hoverboards throughout busy periods then it may find itself running out of capacity at busy points of origin and some users may be unable to return their boards to a convenient dock close to their destination.

The most obvious response would be to request an exemption to the use of vehicles that would permit Runnabout's vans to operate within the pedestrianised zone during peak periods. It may be possible to reach a compromise with the City Council, perhaps by agreeing to restrict the vans to low speeds or to follow clearly designated routes. Runnabout may also be able to negotiate an extension by offering to use electric vehicles on these routes, which would be viewed as more environmentally friendly and less intrusive than petrol- or diesel-powered vehicles.

## **Requirement 2 – exclusivity agreement**

This agreement will cost Runnabout the opportunity to earn significant revenues in these other cities if micromobility proves successful in Steeltown. Runnabout will be left with the downside risk that the project could fail to generate significant profits in Steeltown, without the upside opportunity to expand into adjacent cities if the project succeeds. The fact that Runnabout has no intention of operating in Rivertown at present is irrelevant because the possibility had not been considered before Steeltown's approach and so it would be foolish to agree to those terms. Runnabout will be under much greater pressure to generate profits in Steeltown because it cannot treat this as an opportunity to develop expertise in this type of city environment. That could lead to suboptimal decisions concerning matters such as pricing.

If Rivertown cannot employ Runnabout then it will employ one of Runnabout's competitors instead. That could enable another micromobility firm to establish itself in the market for modern city centres and so capture this market from Runnabout, beyond the 30-mile radius demanded by Steeltown. The biggest concern would be that competitors would start to offer their own shared-hoverboard service, which would rob Runnabout of its dominance in that market. At present, Runnabout dominates this market because it is the only company that has a licence to operate this service anywhere in Geeland. Creating scope for a competitor to move in would be a risky and potentially costly step.

Steeltown City Centre is a public place and so there will be nothing to prevent competitors from observing Runnabout's operations there. That means that it will be a simple matter to study the development of the infrastructure and to estimate the extent to which hoverboards are being rented. It would potentially require little more than a team of observers with clipboards. Runnabout's competitors would then be able to study the manner in which it had approached the adaptation of its traditional approach to this new environment. Not only would that offer valuable intelligence that could be used in bidding for future city contracts, the competition would be able to learn from Runnabout's mistakes and might be able to persuade other city authorities that they could improve on the service being provided in Steeltown.

Steeltown City Council would have relatively little incentive to support Runnabout if it had an exclusive contract, which could lead to Runnabout's investment failing. If the hoverboard scheme is a success then Steeltown will have an advantage over its neighbours, which its neighbours will be unable to emulate fully because they will not be able to seek the support of Runnabout in developing their own rival hoverboard service. If the scheme fails then Runnabout will bear the cost and so it will cost Steeltown very little, if anything. Furthermore, the contract will prevent Runnabout from attempting to develop a more successful scheme in another city. Steeltown could, therefore, afford to redirect funds that might otherwise have been used to ensure the success of the hoverboard venture into some other development and permit Runnabout to struggle to become properly established.

This agreement will set a dangerous precedent for Runnabout because Steeltown will have no incentive to keep the facts confidential. This could undermine shareholder confidence in Runnabout because it is unlikely that many cities would be prepared to lose the opportunity to use Runnabout, which has a great deal of experience and is the only micromobility provider with any direct experience in hoverboard services. Runnabout should undoubtedly be able to negotiate this clause out of any agreement and so any failure to do so will create the impression of incompetence. Arguably, Runnabout should be prepared to forego the opportunity to work in Steeltown if it cannot be free to work elsewhere and it should promote itself to Rivertown as a matter of priority in order to put Steeltown under some pressure.

## **Section 2**

### **Requirement 1 – acquisition**

The first factor for consideration is whether Runnabout has the necessary skills and expertise to evaluate the opportunity itself and to take responsibility for public transport in Steeltown. Runnabout's credibility could be at risk if it makes the wrong decision. Runnabout's expertise as a company is in the management of city-centre micromobility, which does not necessarily equip it with the ability to manage a more extensive city-wide public transport system. The fact that Runnabout's Non-Executive Chairman and Director of Operations both have direct experience in the wider management of public transport is an encouraging sign because they are both able to advise the Board and engage whatever independent advice may be necessary. It would be worth considering whether those Board members could recruit and oversee a senior management team who could take strategic charge of SCCT. For example, the competence of SCCT's existing management team and the likelihood that those managers would remain after the acquisition should be investigated.

Runnabout's Board should also investigate the City Council's motives for seeking to outsource the provision of public transport. Any political or operational problems that have led to disruptions in the recent past may well continue into the future and create problems for Runnabout. Many city dwellers rely heavily on public transport for work among other reasons and so this is a high-profile issue that will leave Runnabout exposed to significant public criticism if there are any ongoing problems, even if those problems were inherited from the City Council. Runnabout should pay particular attention to the financial performance of SCCT and the extent to which the City Council is presently forced to subsidise running costs in order to ensure that SCCT remains financially viable. Runnabout will almost certainly be criticised if it reduces or withdraws services, even if they are loss-making, because doing so could severely inconvenience travellers. It may be that the subsidy promised by the City Council will barely cover the costs of running loss-making services.

The City Council's requirements are complicated and will require Runnabout to offer services that differ from those that operate at present. For example, Runnabout is being asked to introduce a sustainable electric bus service that meets the needs of wheelchair users. If this service is to be introduced by Runnabout then SCCT is unlikely to have the necessary buses and infrastructure in place. Runnabout will have to plan for further investment and will also have to check that suitable buses are readily available for purchase and that there are no geographical restrictions, such as steep hills, that might affect their range. The viability of this service will have to be investigated before any agreement is reached, otherwise Runnabout could be blamed for failing to reach the agreed standard of service, despite making its best efforts. Runnabout will also have to ensure that it is not left open to criticism if the provision of those services prove unpopular with some city dwellers. For example, many pedestrians will be unhappy at having to share the areas that were supposed to be pedestrianised with buses that operate quietly thanks to their electric motors.

### **Requirement 2 – share exchange**

Issuing equity with a value of G\$800 million will increase issued capital by  $800/10,000 = 8\%$ , which is quite a significant dilution of equity. Runnabout's shareholders will be sacrificing quite a significant proportion of future earnings from the existing, and well established, business in return for their share of the profits that will be earned from the



Steeltown collaboration. The actual share will be calculated on the basis of the number of new shares issued as a percentage of the number of shares in issue, so it may be even more than 8%. If the market is uncertain about the value of this acquisition to Runnabout then the share price could fall as soon as the acquisition is announced and remain low until the Board can demonstrate success.

Runnabout may have to offer Steeltown City Council substantially more than G\$800 million if the payment is in the form of shares. Public transport is an important issue to the people who live and work in a city and so it will be a significant political issue if the City Council is accused of selling the transport infrastructure for too little. If the proceeds of that sale are in the form of shares then the City Council cannot claim that it is raising cash that will be available for investment in other public services. If the City Council is concerned that its voters will not be impressed then it may have to press for a much bigger share of Runnabout in order to avoid accusations of mismanagement.

The issue will leave Steeltown City Council with a significant block of shares that could enable it to put Runnabout's Board under pressure, even though 8% is not typically regarded as providing significant influence. The City Council would be in a position to threaten to sell its shares at any time, which would give it the ability to depress the share price in response to any dispute with the Board. The markets would consider any substantial sale as implying that a market participant had a negative perception of the company. A sale by Steeltown City Council could imply that Runnabout was in danger of losing its contract to manage public transport in the city, which would lead to an even greater fall in the share price.

The use of shares would offer some advantages to Runnabout. The most immediate advantage would be that it would not need to find G\$800 million in cash in order to finance the acquisition. The acquisition may require further investment in order to reorganise public transport across Greater Steeltown, as well as launching a micromobility service in the city centre, so paying cash for SCCT might be undesirable at this time. Runnabout is highly geared at  $77,554 / (51,491 + 77,554) = 60\%$ , so further borrowings might be undesirable. The assets that are being acquired, in the form of second-hand buses and trains, will also not be particularly suitable for securing loans and so any borrowing might require further security against existing assets.

The payment in shares would also give Steeltown City Council an incentive to protect Runnabout in any dealings over the management of public transport in the city. The two entities would effectively become partners, with any increase in costs or penalties imposed for poor service threatening to reduce dividend income. While the City Council could sell its shares, it would be difficult to actually do so without triggering a fall in Runnabout's share price and suffering a loss in the process. The City Council would certainly have a significant incentive to refrain from cancelling SCCT's contract to manage public transport.

## **Section 3**

### **Requirement 1 – controls**

No member of staff should be permitted to access or store any files or records on any personal device, including mobile phones, tablets or laptops. If any member of staff requires remote access or processing of files then they should be issued with equipment that has been evaluated by Runnabout's IT Department. Personal devices will not be registered and they may be insecure, which means that the company will be unaware of the scale of any vulnerability. Runnabout will also be able to recover any such devices from staff who leave the company and so it will not have to rely on them deleting files that they had copied onto personal devices.

All IT equipment should be secured by a combination of hardware and software that has been specified by IT professionals and that offers a proportionate response to the nature of the data that can be accessed or read.

The equipment's designated user should be responsible for ensuring that all such safeguards are activated and are kept up to date. Security measures can easily degrade or be overridden by staff who are unwilling to tolerate the slight inconvenience of, say, updating the signatures on an antivirus programme or log out of an unattended machine. Imposing a clear and unequivocal duty on users will, at least, deter any such negligence because they will be unable to argue that they had left matters to, say, the IT Department.

All staff should be given full induction training on IT security before they are provided with a username and password and this training should be refreshed regularly. This training should highlight Runnabout's legal duties to protect data and also the extent of the threats arising from unauthorised access. Training will ensure that staff are capable of understanding their duty to protect data and will realise that any carelessness could leave them exposed to Runnabout's "zero-tolerance" policy. Staff who lack understanding of IT may be incapable of appreciating the significance of the controls and so their compliance may suffer.

There should be a specific rule that staff will be held personally responsible for any losses arising from leaving portable devices unattended outside of their offices or homes. It should be specifically understood that no IT equipment that contains Runnabout data or can connect to Runnabout's systems should be left where it might be lost or stolen. In this case, Geo seemed to have been unsure as to the whereabouts of his tablet, which suggests that he was in the habit of leaving it unattended. A serious punishment for such an attitude would make staff more mindful of the data stored on their equipment and would motivate them to ensure that devices were properly secured at all times.

### **Requirement 2 – ethics**

Arguing that this failure could be mitigated by being hard working and busy would be a breach of the fundamental principle of integrity, which requires Geo to be straightforward, honest and truthful. Runnabout has a clear "zero-tolerance" policy for carelessness with IT security and Geo has breached that rule. It would be potentially misleading to restate the question of Geo's culpability in wider terms, including his commitment to his role of CFO. It would certainly be misleading to argue that the penalty could not apply to Geo when he was in clear breach of his duty to

safeguard Runnabout's files. Whether he left the tablet on a coffee shop table or was careless so it was stolen, he has breached the rule.

Any argument put forward by Geo will breach the principle of objectivity, which requires a lack of bias in any application of professional judgement. It is now a matter for either the Board or the shareholders to decide what action, if any, should be taken against Geo. The issue at stake is partly that he appears to have breached a rule by permitting a tablet containing company data to fall into the wrong hands, which has a clear response on its own. There is a more specific question of whether Geo should be held to an even higher standard of care because the tablet that he handled so carelessly contained such vital and confidential information.

Geo has breached the principle of professional competence and due care, which requires a commitment to professional knowledge and skill. Geo appears to have been careless with sensitive data and has caused the company significant inconvenience as a result. The fact that he is a Board member means that he should be setting the right tone for the rest of the company. If Geo is permitted to continue in his post then it will send a very clear message to staff that Runnabout's control environment is weak.

Finally, this carelessness is a direct breach of confidentiality, which requires that information should not be disclosed without the necessary permission. In this case, the breach does not appear to have involved a wilful passing of information to an unauthorised individual, but it clearly does seem to have been the result of recklessness with the tablet. It is debatable whether Geo should have been working on the device in such a public place, but he should have made certain that he had it with him when he left. Geo should have considered the fact that any interested party who obtained this device could use it to corroborate an exaggerated or distorted version of the story and so the fact that the news comment is misleading is not really an excuse for losing the data in the first place.

## **STRATEGIC CASE STUDY MAY–AUGUST 2020** **SOLUTIONS**

### **Variant 3**

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*CIMA will not accept challenges to these answers on the basis of academic judgement.*

#### **Section 1**

##### **Requirement 1 – hoverboard life expectancy as a critical success factor**

As a commercial entity, Runnabout must ensure that it keeps its costs under control. If the wear and tear on hoverboards is excessive and increasing then it may start to run at a loss. According to Runnabout's costings, the average revenue per journey is G\$5.80 and the average cost to Runnabout is G\$2.19. But those costs include a depreciation charge that is based on Minnering's expected useful life, which appears to be up to twice what is being achieved in practice. Halving the estimated life would double the depreciation charge and would increase the average hire cost by G\$0.74 or 34%. Clearly, the rate of wear and tear on hoverboards has the potential to create a significant impact on Runnabout's margins and overall profitability, so the Board should take steps to ensure that this cost is controlled. It may not be fair to hold the Board directly responsible for the actual management of the diminishing lives of hoverboards, but this is certainly an issue that will have to be kept under review otherwise it may become necessary to increase rental charges.

Ensuring a ready supply of hoverboards to replace those lost through wear and tear could affect Runnabout's ability to meet its users' needs. Any shortage of hoverboards could affect the viability of the business. Fortunately, the declining life expectancy appears to be matched by an increase in Runnabout's investment in property, plant and equipment, which suggests that we are buying more boards to replace those that are broken. We can also see an increase in revenue from last year, which implies that we are able to meet user demand. It would be highly desirable to extend the life expectancy of our declining asset lives, but that is not yet a strategic concern.

The supplier may become reluctant to remain associated with Runnabout if it creates the impression that its hoverboards are fragile and have limited useful lives. At some point, Runnabout's shareholders and other stakeholders will start to question the increasing operating costs and depreciation charges. That could lead to a public discussion about the quality of the hoverboards themselves, which could put the manufacturer in a difficult position. While Runnabout is a major customer, the supplier may be of the opinion that the adverse publicity associated with this contract is too damaging to permit these sales to continue.

It might be necessary for Runnabout's Board to consider the declining life expectancy of hoverboards as a CSF that could threaten the long-term survival of the company. Part of the appeal of hoverboard travel is that it uses electrical power and so it causes less damage to the environment than other modes of transport. Declining useful lives means that more hoverboards are being scrapped. Even if some components can be recycled, there are many components in a hoverboard and it is unlikely that they can all be fully recycled. Runnabout's corporate values include a statement that the company will minimise the environmental footprint of its operations.

The causes of the failures may also lead to safety concerns that could cost Runnabout the support of the various city authorities who licence their operations. Dangerous riding practices, such as jumping kerbs, are likely to lead to increasing accident rates. The authorities may not care that the accidents are due to bad behaviour by users – all that will really matter is that Runnabout's hoverboards are threatening the safety of pedestrians. Runnabout should consider developing an effective response to those practices before it is forced to take action under less favourable circumstances.

## **Requirement 2 – share price**

It is not necessary for information to be released by Runnabout for it to be available to the capital markets. In an efficient market, a quoted company's share price will reflect all information in an accurate and unbiased manner. The capital markets may be able to infer a great deal about Runnabout's business from other sources, for example, if Minnerring Robotics is a quoted company then analysts will study its revenues and may be aware of the level of sales to Runnabout. That could lead to assumptions about increased investment and the need to replace damaged hoverboards that are no longer safe.

The financial statements might enable the markets to infer something about the ongoing cost of replacing scrapped hoverboards. The fact that the book value of property, plant and equipment has increased significantly suggests that Runnabout has invested heavily in new assets, which leads to the realistic assumption that many existing boards had to be replaced. That is further confirmed by the increase in loans during the year ended 31 December 2018, with a much larger percentage increase in finance charges over the same period, which suggests that Runnabout has borrowed to replace assets.

The share price could be adversely affected by the Board's reluctance to confront the problem and to make any form of public statement. The lack of information suggests that there is a serious concern that the Board is unwilling to discuss in public. That will leave the market to infer the extent of that problem, and the market is likely to take a pessimistic view in light of the fact that the Board is unwilling to speak about those concerns.

The fact that revenues are increasing and the company remains profitable should reassure the market that Runnabout is fundamentally viable, with the company being able to keep its costs under control. The share price will reflect the expected net cash flows that Runnabout will produce, taking account of expectations concerning asset lives and the need to incur costs associated with wear and tear. The share price will already have taken those expectations into account, although the price will move in response to changes in expectations as and when information becomes available.



## **Section 2**

### **Requirement 1 – currency risks**

The first challenge is that Runnabout makes large but irregular payments that are denominated in D\$. That means that the risk associated with any given payment are more significant because the absolute amounts are potentially quite high. It also means

that Runnabout cannot rely on currency fluctuations cancelling out over time. This does, at least, create the possibility that Runnabout can mitigate these risks using active measures to hedge using financial instruments, which would see the risk being eliminated in return for a premium.

The second challenge is that the Deelandian economy seems to be going through a period of turmoil, following this unexpected election result. It is difficult to tell how this might resolve itself because the new government will have to consider the effects of different economic strategies and it will also have to make decisions about priorities. For example, it appears that interest rates in Deeland are high, which would generally be associated with a weakening currency. Changing interest rates may be more complicated than the government expects and could have unwanted implications for the currency.

Runnabout may also be affected by the impact of the currency on Minnerring's ability to continue to make and sell hoverboards. The strong D\$ will make it more difficult for Minnerring to export its hoverboards to foreign customers, which could put the company in some difficulty. The promised reduction in interest rates could strengthen the D\$, which could make this a persistent problem that might threaten Runnabout's sole supplier for hoverboards. The D\$ could also mean that the cost of replacement hoverboards remains persistently higher than at present.

## **Requirement 2 – strategic implications**

Runnabout has the advantage of being familiar with this model of hoverboard and being able to exploit the advantages of having only one model to deal with. The maintenance staff will know the model well and will be aware of the repairs that need to be done when a machine malfunctions. It will only be necessary to stock and manage spares for one model and there will be no confusion over parts. The faults will be well known and so preventive maintenance can also be handled efficiently.

Runnabout will undoubtedly be a major customer and should be in a strong position to negotiate a discount against orders when machines are in need of replacement. If Runnabout splits its orders between two or more suppliers then it may have to pay a higher unit price because of the lack of bargaining power. There may also be synergies in terms of bulk purchases reducing transportation costs and simplifying the process of preparing hoverboards for use in the cities in which Runnabout operates. Using more than one supplier would potentially complicate the process of receiving hoverboards and preparing them for rental.

Runnabout's users need only be familiar with one model of hoverboard and they will be familiar with its operation and handling. If there are two or more models in use then there may be concerns that one brand is superior to the other and that riders are receiving a poor deal if they are allocated one of the less-favoured machines. If riders are totally familiar with a single style of hoverboard then they may be safer and less inclined to exceed the machine's limitations when they are riding. Overall, buying exclusively from Minnerring may enhance customer satisfaction with the shared-hoverboard service.

If Minnerring attempts to abuse its position as sole supplier to press Runnabout for higher prices or other concessions then Runnabout should be in a strong position to find an alternative supplier. Hoverboards are basically a commodity item that is manufactured by many different companies. There should be nothing proprietary in the design that is necessary to make an alternative model fit in Runnabout's docks. It would even be possible for Runnabout to commission the manufacture of its own design of

hoverboard if there was nothing suitable from existing manufacturers' ranges. Thus, there is no great strategic dependence on Minnerring that could leave Runnabout totally dependent on it.

The one strategic concern would be that Runnabout's shareholders might perceive an excessive dependence on Minnerring, simply because it is the only manufacturer whom Runnabout uses. That could lead to misunderstandings if the Board is accused of failing to make adequate provision for sourcing replacement hoverboards. It may not be ideal for Runnabout to publicise this fact in case competitors are encouraged by that fact to compete for a share of the market for shared-hoverboard services. Even so, the worst possible case is that Runnabout's Board may be forced to respond to some difficult questions concerning their trading relationship with Minnerring.

### **Section 3**

#### **Requirement 1 – ethics of modifications**

The modifications generally adhere to the ethical principles.

The concept of integrity requires Runnabout to be straightforward, honest and truthful, which appears to be the case here. The sensors are designed to prevent the hoverboards from being abused through overloading or stressing the motors. That is appropriate because Runnabout has a duty to protect its property. Users know that they should not exceed the limits and, indeed, there was always an alarm fitted to

hoverboards to indicate overheating. The sensors simply force users to comply with the restrictions that are inherent in the design of the hoverboards and reduces the risk of them being injured by mechanical failure or overheating causing a battery fire.

It could be argued that the principle of objectivity requires Runnabout's Board to avoid any bias or influence. In this case, the manufacturer of the hoverboard advises that the maximum safe weight for its machines is 95 kg, which is an objective operating limit. Fitting sensors to the hoverboards to prevent them from being overloaded is simply a means of protecting both riders and Runnabout's equipment from injury or damage. There is no bias with regards to a user's weight because the sensor cannot distinguish between that and, say, the weight of any luggage being carried.

The principle of professional competence and due care would require Runnabout to monitor changes in its working environment and to update standard operating procedures accordingly. It would appear that users are becoming more inclined to operate hoverboards recklessly, with little regard for their own safety or that of others. The only concern would be that the responses to the risks of overloading and overheating are communicated properly so that users are aware, in particular, that their board may stop in the event that it is ridden aggressively. Runnabout should have emailed its users to warn them that hoverboards are programmed to slow down and stop in these situations so that they can take that into account when crossing the road.

Runnabout could be accused of being in breach of the principles of confidentiality and professional behaviour. Users could argue that they are being weighed by the new sensors and that doing so is both intrusive and discriminatory. Clearly, there is no breach of confidence because the sensors appear to simply disable the hoverboards. Runnabout is not gathering data about the user's weight, for instance. Users should know whether or not they are within the limits required to ride a hoverboard safely and should not be hiring machines when they are at risk. The controversy over these changes could be a slight breach of professional behaviour, but that could have been avoided by clearer communication and proper warning of users by email or through the apps used to hire hoverboards.

## **Requirement 2 – evaluate results**

Runnabout already has many key findings from this trial. For example, it knows already that the sensors can be fitted to its hoverboards and that they work under live conditions. The results that might be obtained from the remainder of the trial period would be limited to gaining further insights into accident rates and user response, but those results will be tainted by the publicity associated with the press coverage. Users might behave differently because they are aware of the trial in Western City. They could, for example, make less use of hoverboards for a while in protest at the experiment. Arguably, the trial in Western City might as well be curtailed because it will be unclear whether any reduction in broken hoverboards has arisen because of the news story or the modifications. Runnabout's Board might as well make a decision on rolling out the modifications across the company from the data that has already been collected.

The adverse publicity from the western City trial could actually work in Runnabout's favour in the short term, which could make this an ideal time to modify all hoverboards. The news story will stimulate debate about the behaviour of hoverboard users and the need to reduce reckless behaviour.

There could be an opportunity to capitalise on the publicity while it is still fresh so that extending the modifications causes less of a controversy. If the media discussion of the

Western City trial is allowed to die down and be forgotten then the launch of modifications across all cities will be a fresh news event in itself.

The risk committee could appear to be indecisive if it defers a decision. Runnabout is aware of the risks that the modifications are designed to address. Delaying the upgrades to the hoverboards could lead to riders being left at risk of injury. For example, commuters who carry heavy backpacks might not realise that they are exceeding the 95 kg limit. The press will be keen to know what action Runnabout intends to take and might create a story that the company is aware of the risk, but is unwilling to risk revenues or pay for modifications. It is now effectively public knowledge that some of Runnabout's users are putting themselves at risk and so the Risk Committee should at least make a final decision without further delay so that the press can be briefed.

The one strong argument in favour of delaying a decision is that the motivation for the experiment was the declining lives of hoverboards. The sensors address specific forms of bad behaviour by users, namely overloading and stressing batteries. Runnabout cannot be certain that the sensors will extend the hoverboard lives. The only way to conduct an effective test would be to modify new hoverboards and track their maintenance histories and working lives in comparison with unmodified machines that were purchased at the same time. There could be seasonal factors at work that might require the experiment to be extended to a whole year to take account of weather effects, with riders wearing heavier clothes in winter and possibly riding faster to escape the cold.



## **STRATEGIC CASE STUDY MAY–AUGUST 2020** **SOLUTIONS**

### **Variant 4**

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#### **Section 1**

##### **Requirement 1 – strategic options**

Runnabout could do nothing at this early stage. It may be that the concerns expressed by the Head of IT security are unfounded. The report by the Head of IT Security raises some alarming possibilities, but there is no direct evidence that the attempt to compromise users had been effective. Doing nothing could create the strategic advantages of avoiding an unnecessary controversy over Runnabout's online security. For example, the main target for a thief would be the three-digit security number and it would be extremely foolish for users to have provided that information.

Runnabout could contact the major credit card companies and warn them that some of their customers' card details could have been hacked. That would have the strategic advantage of demonstrating a proactive response to the threat, while minimising the public exposure. Unfortunately, data protection rules would prevent Runnabout from releasing the identities of the users whose accounts have been reviewed since this scare began. Runnabout would really have to seek the permission of users to share data with designated third parties in response to security threats. Ideally, that should be part of the company's standard terms of business so that permission does not have to be sought.

Runnabout could suspend all services until IT Security has had the opportunity to investigate and resolve the events that it is investigating. The strategic advantage of doing so would be that this would be a decisive response that would have the added benefit of preventing any further losses of data until the threat of portable radio equipment can be evaluated and eliminated. Users might be impressed that Runnabout is prepared to lose revenue even though there is no way of knowing whether the attack could ever be repeated. The downtime would also make it easier to upgrade the defences against the repetition of such cyber-attacks.

Runnabout could make a public admission that warns users that their accounts might have been compromised. This is a strategic decision because of the impact that such an admission might have for Runnabout's reputation and the attitude of its users. To be effective, Runnabout would have to issue a full press release and make an explicit post to social media because the hackers could have interfered with the email and mobile phone numbers in Runnabout's files. Also, time is very much of the essence if the hackers are planning to abuse the customers' credit cards, using the three-digit security numbers that some of them have provided.

The recommended option should fulfil two objectives: it should be an immediate and effective response to the threat of losses and it should maintain Runnabout's reputation. The public admission will achieve both of those objectives. It will minimise future losses by alerting users to the fact that if they were foolish enough to provide their personal details then they should contact their card providers immediately. It will also serve as a warning to all users that they should be suspicious of any requests for such details that they may receive in the future. A public admission could also be phrased in such a way as to imply that Runnabout is concerned with the welfare of its users and that it is acting to address problems.

## **Requirement 2 – objectives**

The Head of IT should be asked to reach a tentative conclusion about the cause of this incident by early afternoon so that the Board can decide what action to take, if any, over the service to be offered during the evening rush hour. It should be made clear that this is a crucial deadline and should indicate the questions to which the Board requires answers. The Head of IT should also be given a clear indication of whether he will be evaluated on the basis of speed or accuracy. In other words, whether the Board would prefer a tentative answer to no response, if a question cannot be answered with certainty.

The Board also needs to know how long it will take for IT Security to identify the users who have been targeted and the specific data that has been compromised. Users will wish to know immediately whether they need to take action to prevent losses, such as cancelling their credit cards. If that information cannot be released immediately then the next best thing would be for Runnabout's Board to make an announcement as to when the facts will be made available. The Head of IT Security will then have to ensure that Runnabout's credibility is not further affected by failing to meet any such deadline.

The Head of IT should be asked to prepare a credible report as to the nature of the attack and the methods used by the perpetrators. Specific criteria should be set for the standard of evidence that the Head of IT Security should meet in collating and interpreting the facts. Ideally, the report should be supported by evidence that meets the standards required for criminal prosecutions in case the perpetrators are ever caught and brought to trial.

Finally, the Head of IT Security should be tasked with preparing a plan for preventing a recurrence that stands up to scrutiny by an independent expert or consultant. The quality of the plan will be evaluated on the basis of its ability to offer a proportionate and cost-effective response to each of the weaknesses. The Head of IT Security should be prepared to accept responsibility for the plan, even if he delegated elements of its preparation to members of his staff.

## **Section 2**

### **Requirement 1 – share price**

In an efficient market, the share price will reflect the entity's future cash flows. The share price will change when future cash flows are re-evaluated in the light of any new information. The markets were always aware that Runnabout was exposed to the threat of a breach of its IT systems and so the share price already reflected that threat. It could be argued that the share price will not be affected in the long term because the recent events simply confirm that the market's concerns were valid. The share price will undoubtedly dip in the short term, but that will not necessarily be a permanent decrease.

The nature and extent of the data breach could reveal some fresh information to the markets and that could have a permanent impact on the share price. The markets might have assumed that any serious breach would be countered by IT security and that the threat was minimal. The fact that at least 180,000 customer accounts appear to have been breached may suggest that the threat to IT systems is more serious than had been anticipated and that potential hackers are more resourceful than had been thought. The nature and extent of this breach could undermine the market's confidence in IT security and could lead to a significant and long-term decrease in the share price of all companies that depend on IT in this way.

Paradoxically, the breach could serve to reassure the markets, depending on Runnabout's handling of this potential crisis. If the company takes swift and effective action and manages to reassure users that everything is under control then the markets may decide that the threat of a data breach is less severe than had first been thought. The markets may decide that IT breaches are specific risks that can be addressed by proper diversification and that there is no need to seek a higher rate of return because of this potential risk. The share price is unlikely to rise, but it may recover from initial concerns and return to its previous equilibrium level.

The response of Runnabout's users to this crisis will also have an impact on the share price in the long term. The inevitable adverse publicity and expressions of irritation by users is not, in itself, a cost to Runnabout because it does not directly affect cash flows. The share price will only respond if users close their accounts, costing Runnabout revenue, or if Runnabout is forced to compensate users or the credit card companies for any losses. In the short term, those concerns will create uncertainty and that could depress the share price, but the share price will hopefully recover in the medium to long term when Runnabout addresses those concerns and, hopefully, manages to eliminate them.

### **Requirement 2 – perceptions of governance**

The Board is ultimately responsible for everything that happens within a company and so it bears the responsibility for the data breach. It is, of course, perfectly acceptable to delegate tasks to lower levels of management, but those managers should then be working to implement the Board's strategic decisions. The Board

is liable to be blamed for any breach of controls or systems, regardless of the ingenuity of the perpetrator of that deed. Many stakeholders have exaggerated expectations of the effectiveness of control systems, especially where IT is concerned. They are aware of the safeguards that manage their access and they believe that those procedures should be sufficient to protect their details.

The fact that the breach was only possible because the users were careless with their credit card details should excuse the Board, but it may actually make them appear more culpable. The users will suffer possible losses and inconvenience and will seek compensation. The fact that they furnished the hackers with sensitive details will undermine their case, unless they can press Runnabout to accept liability. It is in the users' interests to blame the breach on poor governance in the form of a slack control environment. That argument will be relatively easy to sustain because press coverage will tend to focus on human interest aspects that can be easily understood, such as the harm caused to fraud victims, rather than complex arguments about IT security.

With hindsight, the electronic interference with docks will appear to have been an obvious weakness in Runnabout's control system and so the Board may be liable to criticism for failing to address that threat. This is a common problem in the aftermath of many crises because the quality of governance is evaluated on the basis of the outcome rather than the information that was available to management at the time. Boards often tolerate risks because there is no cost-effective means of mitigating them. For example, it is difficult to see how Runnabout's Board could have tracked electronic interference at its docks, especially when they did not know the precise form that the interference would take. It will, nevertheless, be possible to argue that the risk could have been foreseen and managed. For example, news editors can seek the advice of IT and communications experts.

The fact that Runnabout is sending out slightly conflicting messages to its users will make any criticism of its governance even more severe. There is no question that the message being sent to the 180,000 users whose accounts appear to have been compromised will come to the attention of the media. That will cause confusion when other users are given a restricted message that is intended to reassure. The confusion could be more serious because there could be users who provided some details to the fake website but whose user accounts have not been accessed and so they will feel that Runnabout's response is unhelpful. Runnabout risks putting the directors under even greater pressure because it is issuing limited information on what appears to be a "need-to-know" basis.



## Section 3

### Requirement 1 – making systems completely secure

Diamond Chip clearly has an incentive to sell its service and so it may be guilty of exaggerating its ability to prevent a recurrence of the data breach. It could be argued that hackers always have the initiative and so they will always have an advantage over IT security providers. Information technology is constantly changing, which means that new hardware and software are being developed that can assist hackers to breach systems. For example, the radio equipment used to disrupt Runnabout's systems would have been unavailable or unaffordable in the relatively recent past. Even if Diamond Chip succeeds in protecting Runnabout's systems against all known threats, there is always a risk that an unknown threat will emerge and succeed in breaching the security measures in the future.

The fact that Diamond Chip wishes to conduct regular updates and ongoing reviews confirms the concern that new threats are constantly emerging. Diamond Chip's reviews will only prove effective if its consultants are aware of specific threats while they are being developed and so can identify vulnerabilities before they can be exploited. It may not always be possible to stay ahead of the hackers and so Diamond Chip may have to rely on reported cases in order to keep its reviews updated. Hopefully, that will enable Runnabout to benefit from other companies' misfortunes, but that ignores the possibility that Runnabout may be an early victim of a new threat.

IT security companies can only deal with the threats that they know about, which may be a problem because emerging threats may not be shared. A company that is the victim of a data breach may not wish to publicise that fact in case it encourages others to attempt to hack its systems or because it does not wish to suffer adverse publicity. Consultants such as Diamond Chip and Runnabout's internal security staff may not be aware of serious threats until long after they have first been deployed because nobody would have an incentive to share such information. The company may discover a new threat only after it has become a victim of it.

Some breaches of IT security may be designed to remain undetected and may never be uncovered, even by their victims. For example, a hacker might wish to gather valuable information on behalf of a competitor and may take care to avoid any activities that would come to the attention of the victim. The recent case involving Runnabout was discovered because of the widespread disturbance and the large scale of the checks on customer details. It may be that the breach would have remained uncovered if the intrusion had been restricted and then allowed to continue in the longer term. Diamond Chip's guarantee is only worthwhile if the consultancy is certain that it is aware of all such low-key threats.

Diamond Chip cannot protect Runnabout against incompetence or dishonesty by its staff. Even the most secure systems can be breached if it is possible to persuade those who have access to reveal secure and confidential information,

such as user names and passwords. The fact that Diamond Chip plans to conduct penetration tests confirms their fear that Runnabout's staff might offer a weakness in the system to a skilful hacker. It should be remembered that the reason for the effectiveness of the current breach was partly due to the willingness of users to input their three-digit credit card numbers into a website that they had never used before.

## **Requirement 2 – currency risks**

The fact that the economy underlying the E\$ is weak could suggest that the currency is likely to weaken. If it does then future payments are likely to decline when converted into G\$ and so there is a greater likelihood of an upside risk than a downside. The weaker currency may encourage exports and so it could be desirable for Eastland's Government to allow the exchange rate to remain in Runnabout's favour. Unfortunately, there could also be a risk that Eastland will act to strengthen its currency in order to promote confidence and that could lead to a sudden increase in the cost of settling these invoices and so it may be reckless for Runnabout to simply accept these risks in the hope that they are all upside.

The invoice for E\$600 million that is due in three months is a significant amount that may be worth hedging in order to reflect the fact that even a small percentage strengthening in the E\$ could lead to a substantial additional cost in absolute terms. The cheapest and easiest way to hedge this risk would be to use a forward contract to commit Runnabout to an agreed payment in G\$ for the E\$ that it will require in three months. That would cost Runnabout the opportunity to benefit from any upside in the event that the E\$ weakens during the three months. Runnabout could, as an alternative, purchase a call option that would give it the right, but not the obligation, to buy E\$ at an agreed price. Options have the disadvantage of being priced according to market expectations of future movements. The premium paid for the option would be more expensive if Runnabout expected to benefit from exercising it.

The monthly and annual payments are ongoing commitments and so they are difficult to hedge in the longer term. The cost of active hedges using financial instruments is likely to increase in line with market expectations and so it may not prove cost-effective to manage the risks. It would be ideal if Diamond Chip could be persuaded to price its services in terms of G\$ because that would eliminate Runnabout's currency risks and could also be of value to Diamond Chip if it meant that it could use G\$ to cover the costs of servicing the Runnabout contract. If payment must be made in E\$ then the cost of the monthly payments should simply be met by converting G\$ at spot on a monthly basis, in the hope that any fluctuations cancel over time. The risks associated with the annual payments should be evaluated on an annual basis and a decision should be made as to whether to hedge on the basis of expected volatility over, say, the three months prior to the settlement date.

## **STRATEGIC CASE STUDY MAY–AUGUST 2020** **SOLUTIONS**

### **Variant 5**

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*CIMA will not accept challenges to these answers on the basis of academic judgement.*

#### **Section 1**

##### **Requirement 1 – implications of move to cloud**

Runnabout has a heavy IT spend and the shift to the cloud should enable the cost of processing and storing data to be reduced because the service provider will be able to benefit from economies of scale and pass those on to clients. The cloud services provider should be able to at least match Runnabout's present in-house facility for performance and reliability and should be able to do so at a lower overall cost for data processing and storage. Those savings might be difficult to achieve from the in-house processing because Runnabout has to maintain a high level of service and so any internal cost saving could prove a false economy. Runnabout is making profits, so there is no particular pressure to cut costs, but the savings will offer some flexibility in setting or maintaining hire prices and in continuing to pay dividends.

Switching to a cloud-based service would relieve Runnabout's Board of the need to review and oversee the IT systems. That would, hopefully, enable the Board to concentrate more fully on managing strategy and developing the business. The move would not relieve the Board of any of its responsibility for the IT systems, though, and so there would still be a clear need to check that the systems are working as they should. The Board would have to develop contingency plans for responding to any problems with IT because they will probably manifest themselves unexpectedly. The company will not receive the warning signs of an impending problem that might be expected from an in-house system.

Runnabout will lose control of the operating of key aspects of its IT system. That could create serious problems in the event of any issues with interfaces or other areas that require an overview of the system as a whole. For example, if the network links between the docks and the servers are slow or unresponsive then it may be difficult to identify the responsible party and to address the matter efficiently. If Runnabout faces a major IT crisis then time and energy may be wasted in establishing who is responsible for resolving matters and putting them right. Problems that would normally be addressed quickly could take much longer than necessary to resolve.

The cloud-service provider should be able to manage issues relating to scale without troubling Runnabout's Board. It should be possible to simply allocate more capacity to

service Runnabout as the company's needs increase and that will avoid addressing expansion. This is an opportune time to switch to the cloud because of the need to upgrade Runnabout's servers and back-up facilities. Establishing a cloud-based system now should be no more intrusive than the updating and expansion that is already necessary anyway. The only real difference is that subsequent upgrades can be handled by the service provider.

The switch may need to be permanent because Runnabout will lose much of its capability. The existing data centres will be unnecessary and will probably be sold off. The IT staff who worked there will also be unnecessary and will be made redundant. In the event that Runnabout decides to bring IT back in-house then it will have to build new facilities and staff them. Hopefully, there will be no need to reinstate that in-house capability. The work is being outsourced to experts who can meet Runnabout's needs more efficiently than an in-house team.

## **Requirement 2 – currency risks**

Runnabout faces an economic risk because the cost of its IT service could increase and depress both profits and the company's share price. The cost of the shared-service provider's support is likely to be substantial, so any currency exposure could be quite significant in absolute terms and will probably require some consideration. Once the IT work has been outsourced to the supplier, it will be difficult to move to a cheaper alternative because of the need to carefully manage the process of any changeover. The terms of the contract with the service provider will almost certainly include a notice period, which will further complicate any change to a new provider.

The service provider is likely to expect to invoice Runnabout on a monthly basis and in its home currency. Runnabout would clearly prefer to be invoiced in G\$, but doing so would transfer the risk to the cloud provider, which could be a false economy if the service provider is left facing currency risks that could threaten its going concern. That means that Runnabout will be faced with a sequence of monthly payments that would be difficult to manage using traditional hedging methods. Internal hedges will be difficult because all of Runnabout's revenues are earned in G\$ and so cannot be offset against other currency payments. External hedges are complicated by the fact that the cost of acquiring protection through derivatives and other financial instruments will reflect expected market movements and so they will not smooth out the long-term cost and volatility of those payments.

The most effective approach to mitigating this risk would be through the selection of a shared-service provider whose home currency was not particularly volatile in relation to the G\$. Historical exchange rates should be reviewed over the past few years and currencies that have moved significantly in the past should be avoided if possible. The future movements could also be evaluated by considering economic indicators, such as interest rates and inflation. The bigger the differences from Geeland's, the more likely the currency is to fluctuate. Runnabout should also consider the elasticity of demand for hoverboard hire. It may be possible to accept the risk and pass the associated cost on to users if demand is unlikely to decline.

## **Section 2**

### **Requirement 1 – city councils as stakeholders**

Arguably, the existing cities will be unlikely to take a great deal of interest in the move because the responsibility for data protection is really a matter for national government. The city councils will be more concerned with the provision of safe and reliable transportation and will be unlikely to be unduly concerned about data privacy. It could prove costly for the city councils to take any action against Runnabout because the hoverboard services are valued by users, most of whom will care very little about the switch to the cloud.

The councils would take an interest if the shift could threaten the reliability of the service, which could affect the local economy if users are unable to get to work on time. Runnabout may be asked to confirm that the move to overseas servers will not threaten the reliability of the service. If, for example, any breakdown in the system led to users being unable to hire or return hoverboards. It is unlikely that Runnabout will have to seek permission to switch its IT services, but the company will have to consider the consequences of any failure or disruption that arises.

The closure of the data centre and its remote back-up will be an issue for the city council or councils who are threatened with the loss of up to 750 jobs. The city authorities might take some action against Runnabout in those cities in order to demonstrate their commitment to keeping voters' jobs in the local community. Runnabout may be faced with the threat of withdrawing their licence to operate or facing replacement with another micromobility provider. The individual city councils do not, however, have any collective strength because each has its own clearly designated jurisdiction.

The switch could become a political issue for some city councils, particularly if those cities are governed by political parties that are in opposition in the national parliament. The city councils may use this issue as an excuse to criticise the government. They could, for example, argue that the Industry Minister's commitment to restricting the storage of personal data overseas is too little or too late. Such political posturing would do very little to prevent Runnabout from going ahead, but it would create adverse publicity that might concern users.

## **Requirement 2 – dividend payment**

This proposal would result in a dividend payment of approximately G\$9,933 million. That is a substantial payment compared with existing cash balances and so the Board will have to ensure that the company can fund such a payment. Presumably, the sale of the data centres will create sufficient cash to fund at least the additional payment and so the payment will be self-financing. The dividend will also reduce retained earnings, which will limit Runnabout's ability to pay future dividends. That is unlikely to be a problem within the foreseeable future because the company has plenty of distributable retained earnings.

There is a risk that the Board will appear to have lost its strategic vision for Runnabout. The additional dividend is approximately G\$2,838 million, which could have been used to fund an investment project. The fact that the Board does not wish to put the funds to work within the entity is a worrying sign because the shareholders could reasonably expect the Board to have positive NPV projects that it would invest in if it had sufficient funds available. The Board will have to present the windfall dividend payment as an opportunity to return some value to the shareholders because it does not wish to expand at present, and that finance will be raised as and when necessary in the future.

The additional dividend could introduce some unwelcome volatility into Runnabout's share price. The announcement of the dividend could cause an increase in the share price, which might be sustained even after the dividend is paid if



some market participants believe that the company is planning to maintain some of the increased distribution. Shareholders who rely too heavily on dividend-based valuation models will, however, be unable to maintain that price indefinitely because more sophisticated investors will recognise that the shares are overvalued and so they will sell. The markets would have no reason to disbelieve the Board if it is made clear that the increased dividend will not be maintained into the future.

Some shareholders will be inconvenienced by the increased dividend because it will have an impact on their income tax liabilities. The shareholders would prefer consistency in dividend payments so that they can manage their tax affairs. Runnabout could deal with this problem by announcing the increased payment well in advance so that those shareholders who would prefer to realise that sum as a capital gain can sell their holdings. The shareholders who do so will make a capital gain, which may be taxed more leniently. They will then be able to repurchase their shares after the dividend has been paid, when the price has fallen back towards its previous level.

It would be preferable to distribute the cash to the members rather than holding the funds if there is no clear reason for doing so. Large cash balances create the impression of weak and ineffective management because it leaves the company with unproductive assets that are not being put to good use. Returning the cash in the form of dividend will at least reduce equity, which is the most expensive source of finance for most businesses and so it can have an economic justification. The alternative would probably be to repay some of the company's long-term debt, although that would result in a far smaller saving on funding costs.

### **Section 3**

#### **Requirement 1 – risk report**

It is already acknowledged that Runnabout is heavily dependent on its IT systems in order to remain operational. Data recovery is an important element of Runnabout's corporate disaster recovery plan. That risk will have to be expanded upon to reflect the fact that the management of the servers has been delegated to a

third party. The shareholders will have to be warned that Runnabout's Board has no direct access to the servers and cannot monitor Cloudharr's operations. These risks are mitigated by the fact that there are formal standards relating to risk management and that those can be used to measure the potential effectiveness of control systems. Cloudharr publishes regular reports on its adherence to those formal standards.

Runnabout will be entrusting the security and privacy of users' data to a third party that is based in a foreign country whose data protection laws may be different from Geeland's. If Cloudharr abuses Runnabout's data then it could leave Runnabout exposed to legal action under Geeland's legislation, which could result in fines and lost customers. Cloudharr could agree to respect the laws as they prevail in both Geeland and Northalia. Runnabout could take legal advice to check that the two countries' laws are not in conflict on any material issue. The risk can then be mitigated by setting detailed service-level agreements that specify the safety and security of all data in Cloudharr's possession.

The fact that the data centres will be located in Northalia could be a problem if there are technical difficulties that affect data connections with Geeland. There have been rare cases of accidents disrupting digital communications when crucial cables have been damaged. This risk could be mitigated by obtaining a detailed report on the infrastructure that enables Northalia to communicate with the rest of the world. It should be sufficient to establish that it would take more than the failure or destruction of a single cable or network hub to sever links to Geeland.

If Cloudharr goes into liquidation then its support of Runnabout's operations could cease immediately. Cloudharr would also have sole possession of Runnabout's data files, which could create significant difficulties in terms of ensuring their safe return. Runnabout should ensure that it retains legal ownership of the various software licences for the programs used by Cloudharr and also the ownership of the data itself. That should enable Runnabout to seek the return of its data and the immediate establishment of a replacement system with a different cloud-service provider with the least possible delay.

## **Requirement 2 – board accountability for data security**

The Board has a collective responsibility for the governance and management of all aspects of the company's operations. Runnabout's Board is as responsible for the security of this data as it would be if the data was managed and processed in-house. The fact that the Board has delegated key tasks to Cloudharr is no different in that respect to fact that the Board had previously delegated key tasks to company employees. The Board is expected to put systems in place to safeguard security and those systems are expected to enable the Board to discharge its responsibilities effectively.

The Board can impose duties and accountability on its staff and on third parties as part of discharging its own duties. For example, there are controls that could be introduced within Runnabout that can verify the completeness and accuracy of data processing at Cloudharr. The staff responsible for implementing such controls are not directly responsible to the stakeholders, but the Board is entitled to rely on their support and would be within its rights to impose disciplinary proceedings in response to any failures. Making the staff accountable to the Board and the Board ultimately responsible to the stakeholders ensures that there is unlikely to be carelessness or recklessness in operations.

It could be argued that it is important that the Board is held accountable for major responsibilities such as data security. Company stakeholders need to know whom they are dealing with and relying on, to take care of their interests. The Board must remain accountable, even if that accountability is merely for responsible delegation and oversight. Imposing that sense of accountability will then motivate and encourage the Board to discharge its responsibilities in a rigorous and ethical manner. The Board will be unable to hide behind the fact that an employee or a third party made an error that led to a serious problem.

The Board is not being unfairly burdened because it should be sufficient to be able to demonstrate that all reasonable precautions were taken in terms of strategic management and supervision. For example, the security of Cloudharr's servers could have been taken into account in conducting due diligence before signing any agreement. The Board should have reviewed the security report provided by the external audit firm to ensure that the investigation is sufficiently rigorous and no weaknesses were reported. In the event of a data breach or other irregularity, it should be possible for the Board to argue that there was nothing more that could have been done to prevent this from occurring.

## **STRATEGIC CASE STUDY MAY–AUGUST 2020** **SOLUTIONS**

### **Variant 6**

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#### **Section 1**

##### **Requirement 1 – suitability**

The first challenge is in deciding whether there is a realistic strategic opportunity for Runnabout. Coastalia presently attracts older people who are looking for peace and quiet, which does not appear to be a market that would be attractive to a shared-hoverboard service. The tourist demographic will change if the Minister for Tourism's plans are effective, but that would depend in part on Runnabout's willingness to make the investment. The most obvious response to that challenge would be to request access to the Minister for Tourism's projections and the assumptions upon which they are based. That should give the Board a better understanding of the likelihood of a viable market being created. It would also be helpful to know which other companies have been invited to invest in Coastalia. It would be reassuring to know that hoverboards are not the only intended attraction and that there appears to be interest from other entities.

Runnabout's strengths include the ability to persuade users to register for its service using their mobile phones and credit card details. Tourists visiting Coastalia may be unwilling to sign up for a service that involves creating an online user account and giving credit card details to an unknown service provider, even if they would be open to the idea of using a hoverboard while on holiday. It may be possible for the problem to be dealt with by working in collaboration with tour operators, who could email prospective travellers with details of the hoverboard service that will be available and recommending that they create accounts before they travel. Alternatively, local hotels might be willing to promote a service that enables potential users to purchase temporary cards that could be used to hire and return hoverboards at docks based in Coastalia. Users could then have their hire charges billed to their room accounts which would prevent them from having to load an app and sign up while overseas.

Runnabout is experienced in establishing a suitable infrastructure in city-centre environments, but that might not equip it to establish a viable service in a seaside environment. For example, the docks require power and internet access before they can operate properly. If the docks prove unreliable then users will be unable to hire and return hoverboards, which will lead to inconvenience and will discourage users from using the machines again for the duration of their stay. There could also be issues associated with the pavements and pedestrianised areas that users will be expected to

ride on. The streets may be flat enough to walk on safely without them necessarily being suitable for hoverboards. There could be high kerbs that would make crossing roads safely difficult and inconvenient. Runnabout would have to commission a detailed survey in order to check that the location is suitable for hoverboards and the Ministry would have to agree to rectify any shortcomings.

Runnabout's mission is "to keep Geeland moving" and its vision is to "offer an economical and efficient approach to micromobility". Even if the mission is expanded to encompass Coastalia, it is debatable whether the Minister for Tourism's proposal is consistent with Runnabout's mission and vision. Runnabout's present focus is on serving users in a city-centre environment, with many users potentially hiring a hoverboard to complete their daily morning and evening commutes. Tourists in Coastalia may have relatively little need of micromobility and may hire a hoverboard once or twice in the course of a two-week vacation. Runnabout will have to study plans for the seafront locations that have been proposed for Coastalia's resorts in order to determine whether they are large enough to require micromobility for transportation purposes or whether a hoverboard might be hired as a novelty. Runnabout has some experience of tourists using hoverboards on city breaks in Geeland and so it may be possible to determine whether this market makes recurring use of hoverboards while on holiday.

The suitability of this proposal is also partly dependent upon Runnabout's long-term plans for growth. The company's expansion has been limited so far to cities in Geeland. It may be difficult to expand further in that market because there will be a finite number of cities that do not yet offer shared-hoverboard hire. The information provided by the Coastalia Tourist Board suggests that the shared-hoverboard market would be restricted to the large towns on the coast because the interior is mountainous. Runnabout's Board will have to consider whether investing in this venture might distract from other potential investments that would provide greater scope for expansion. For example, it may be more relevant to invest in an expansion into a city environment in a different country, so that Runnabout can develop its brand elsewhere. The proposal should be evaluated in relation to its potential impact on existing strategic plans in order to establish whether the proposed venture in Coastalia would be too much of a distraction from the development of the existing product portfolio.

## **Requirement 2 – business risks**

Runnabout could be exposed to significant compensation claims for injuries to riders and pedestrians. Many tourists will never have encountered hoverboards before and so there could be a high risk of accidents. Tourists will be covered by travel insurance, which will enable them to pursue claims that would not generally be affordable by individuals. Runnabout's own insurance cover will protect it against the immediate costs, but that cover will increase in cost if the number of claims increases. One way to reduce the risk might be to restrict the maximum speed to less than the six miles per hour that is possible in Geeland. There will be fewer accidents if riders cannot exceed a brisk walking pace.

Operating equipment such as docks and hoverboards on a seafront might reduce their useful lives significantly. The air is likely to be moist and saltwater could be sprayed on equipment while it is in operation. Those conditions could cause corrosion in any of the metal parts and could cause short circuits that reduce the lives of rechargeable batteries and electronic components. Beach sand could also find its way into mechanical parts and increase the rate of wear due to abrasion. It may be possible to modify equipment so that it is protected against this harsh environment. Runnabout should ask its suppliers to recommend engineering solutions that would reduce the ingress of moisture and fine sand or that would minimise the damage that they cause.



There may be a greater risk of malfunction because of a shortage of local engineering support to repair damaged hoverboards and to maintain docks. Runnabout's operations in Geeland are based in city centres, each of which has a large enough presence to make it cost effective to have engineers equipped with vans and a central depot for repairs. The seafront operations in Coastalia are unlikely to be large enough to justify a constant presence in each town and so engineers may have to drive between towns, which will reduce response times. It may be possible to equip the vans with the tools and facilities that would enable all repairs to be made immediately from the van rather than having to return defective boards to a depot for work, which would offset the delay in responding.

## Section 2

### Requirement 1 – stakeholders

The Coastalian Minister for Transport is a key stakeholder because he has the authority to change the law in Runnabout's favour. The Minister has high power because of that, but appears to have a low interest in making the change. Runnabout's Board should identify ways to encourage the Minister's interest in making changes to the law. One valid approach would be to argue that the changes would be good for the economy and so would be a popular political act. Runnabout should also provide the Minister with facts and recommendations that might be used to offer reassurance that the introduction of hoverboards will not lead to accidents that will be blamed on the Minister. It would also help if Runnabout made it clear that the change in the law could be restricted to specific areas and left to, say, town councils to identify and licence, which would relieve the Minister of the burden of regulation.

The Minister for Tourism is also a key stakeholder because he is a member of the Coastalian Government and so might support any attempt by Runnabout to change the law. The Minister has high interest because hoverboards might boost tourism, but low power because the law relating to these vehicles is a matter for another Minister. Runnabout should seek to enhance the Minister's power in this matter by seeking to join forces with other interested parties, such as hotel owners and other business people in the towns who might benefit. The Coastalian Government might be more inclined to work towards a change in the law if there is an argument that the introduction of hoverboards would create jobs and stimulate an important industry. The Minister for Tourism might also be persuaded to negotiate quietly and without a great deal of publicity so that the Minister for Transport does not feel that it would be necessary to refuse in order to save face.

The local governments in charge of the coastal towns involved in tourism are stakeholders because they have an incentive to press for anything that will enhance their local economies. They have a high interest that at least matches that of the Minister for Tourism's high interest, but are also in a position of low power because they cannot change national laws. Runnabout should work with the councils in order to determine whether there is anything to strengthen their positions. For example, town councils can often introduce local regulations that operate in parallel with the national law. It may be possible to obtain legal advice that enables the town councils to define hoverboards as something other than vehicles and so make them exempt from the laws banning them from pavements. Runnabout could assist the town councils by hiring lawyers and by organising contacts with the city councils in Geeland who licence micromobility to assist in the drafting of the laws.

The opposition party has become a stakeholder because this matter has become a political issue that could be used by the competing parties. The opposition has a high interest because this has been identified as an area in which the government may be vulnerable and high power because the government will not wish to be open to criticism. Runnabout's concern here should be that the opposition might win either way. If hoverboards are introduced then the government may appear to be making a special case to set aside the law. If they are banned then the opposition may be able to complain that jobs are being lost. The fact that an opposition member of parliament has spoken out against the government could be a problem because the government may not wish to appear bullied by the opposition. Runnabout may be best advised to persuade the opposition party to take a low profile by persuading the party that the issue should be jobs and not politics, otherwise the Minister for Transport may be instructed to take a very entrenched position.

## **Requirement 2 – ethical implications**

Runnabout's Board should pursue its responsibilities in an objective manner, without bias or influence. In this case, that suggests that Runnabout should be free to work towards the maximisation of shareholder wealth by offering Coastalia's Government the opportunity to consider an updating of the law. The government has been elected and should be permitted to fulfil its democratic duties, but that need not imply that Runnabout should be forbidden from seeking changes in the law that might be to the country's net benefit. Governments often need to be alerted to the limitations of present legislation and the problems that it creates, so companies should be free to make suggestions and to seek change.

The concept of integrity would require Runnabout to be straightforward and honest in its dealings with the government. That does not mean that it would be unacceptable to lobby, merely that it should not do so under false pretences. It is, for example, clear that Runnabout has an interest in bringing about this change in the law. The government will be aware of that interest and can take it into account in any interaction with the company and in the evaluation of its arguments. The information provided by Runnabout should be truthful, although that does not prevent Runnabout from presenting its case in the manner that suits it best.

Professional behaviour would require Runnabout to avoid damaging its reputation. In this case, the company may already be in breach because of the manner in which it persuaded an opposition member of parliament to act on its behalf. Political lobbying is an acceptable part of the democratic process, but only if those being lobbied are aware of the attempts to persuade them. It could be argued that it was unprofessional to persuade the politician to speak out in this way and to do so without stating the influence that Runnabout had brought to bear.

### **Section 3**

#### **Requirement 1 – share price**

The efficient markets hypothesis suggests that share prices will reflect all available information. Briefing the analysts will not make details of Runnabout's future plans public, but that is not necessary in order for the information to inform the share price. If the volume of Runnabout shares being purchased increases significantly after the briefing then the markets will infer that someone is in possession of positive news. It is realistic to expect that news to be reflected in the share price, with the credibility of that expectation being supported by the value of the transactions.

The analysts have a duty to advise their employers and their clients to the best of their abilities, making the best use of the information at their disposal. If the analysts are equipped with positive information about how Runnabout will perform in the future then they would be in breach of their contracts of employment if they do not advise accordingly. The analysts are also in competition to report good returns on their investments and they will be at a disadvantage if they fail to act on the information that they receive during the briefing. The briefing will have been designed to reassure the analysts that Runnabout has a strong future and that the share price should be supported.

The analysts will be in a difficult legal position because they could be deemed to be in possession of inside information that would prohibit them from trading before that information becomes public. It would, however, be unrealistic to brief the analysts who have an interest in this market sector and then expect them not to trade for six months or more. Companies generally disclose the fact that an analysts' briefing will take place and this at least alerts the markets to the possibility that there may be some well-informed trades. The analysts will generally buy or sell immediately after the briefing, if they are going to trade at all, because the other analysts who were present will eliminate any advantage in having that information if they delay.

There is no guarantee that all of the information that is briefed to the analysts will be "news". The analysts will have been using their contacts and their knowledge of the sector to study Runnabout from the outside and they may have been able to gather a great deal of the information released during the briefing from their own sources. It is possible that the analysts will be disappointed that the news is not even better than they had expected, which could mean that the share price actually falls. Runnabout should study the business press carefully before proceeding in order to ensure that it does not create false expectations that may do more harm than good.

#### **Requirement 2 – Chairman's refusal**

Governance rules and regulations usually state that Board members are bound by any decisions made by the Board and that Board members have a collective responsibility to adhere to them. The only exception to that would be when a director explicitly voted against a proposal and minuted his or her objection to the decision in the event of being in a minority. It is unacceptable for Runnabout's Non-executive Chairman to forbid discussion of a proposal made during a meeting of the Board because that prevents the other directors from discharging their responsibility to manage the company to the best of their ability. During the meeting, the Chair's role is to chair the meeting in order to facilitate clear and efficient discussion and to ensure that the decisions made are properly recorded for subsequent action.

The Chair has the authority to manage the Board, including setting the agenda for Board meetings. That does not, however, give Jack Avery the power to block all discussion of matters that he wishes to veto. If it did then he would effectively have absolute power over the Board and the running of the company. He is not required to agree with every proposal made during a meeting, but he must ensure that all directors feel confident in

their ability to manage Runnabout's strategy and contribute to the decisions for which they will be held accountable. If the directors lack that confidence then they will be forced to consider resigning rather than being associated with any problems or scandals arising from Jack Avery's mismanagement.

As Chairman, Jack Avery should be respected for his knowledge and understanding of business and strategy and so his views should be respected in any Board discussion. He should feel confident in his ability to persuade the Board that it is in danger of making a mistake if he believes that a proposal would cause serious harm. He is likely to undermine his authority and his credibility if he attempts to use his powers to block discussion because he is "sceptical". The remainder of the Board will feel that he is insecure. If the Board agrees to something that he feels strongly about then he will retain the right to record his objection and he could even resign if his concerns are serious enough.

Jack Avery risks splitting the Board because he is effectively vetoing a suggestion that was made by the CEO. Good governance relies in part on the chair and chief executive sharing the ultimate responsibility for strategic management. The CEO is ultimately responsible for the strategic management of the company and the chair is responsible for the strategic management of the Board. This case threatens to bring the two roles into conflict because the CEO has made a strategic proposal and the Chairman is intent on preventing the Board from discussing it. The directors may view this as a personality clash or an attempt to seek greater influence. As such, it could threaten the unity and coherence of the Board as a whole.



**Strategic level integrated case study – Examiner’s report****May–August 2020 exam session**

This document should be read in conjunction with the examiner’s suggested answers and marking guidance.

**General comments**

The Strategic case study (SCS) examinations for May and August 2020 were based on a pre-seen scenario which described Runnabout, a company that operates micro mobility services in various locations in the form of electric “hoverboards” that can be rented from a docking station and ridden on public pavements before returning them to any convenient docking station close to the user’s final destination. This arrangement makes for fast and efficient transportation for the so-called “last mile” of a journey, enabling commuters to travel rapidly from, say, the railway station to their office.

The micro mobility industry encompasses a range of personal vehicles, including pedal-driven bicycles, electrically assisted bicycles, scooters and hoverboards.

A total of six variants were set on Runnabout. The focus for each variant was as follows:

- Variant 1: The electronics that restrict the hoverboards to a safe maximum speed have been hacked.
- Variant 2: A city’s government has invited Runnabout to manage all city-centre transport links.
- Variant 3: Hoverboards are wearing out quickly because of carelessness by users.
- Variant 4: Runnabout’s IT security has been breached and customer data has been accessed.
- Variant 5: Runnabout’s Board is considering moving the IT systems to a cloud-based server.
- Variant 6: Runnabout is considering the provision of services to tourists in a foreign country.

All six variants complied with the published blueprint and covered the core activities in the prescribed weightings. Each variant consisted of three tasks and each task was further subdivided into separate requirements. The weighting attached to each requirement was stated and candidates were advised to allocate the time available for each requirement on the basis of those weightings. Markers were instructed to adopt a holistic approach to marking, which meant that the answer to each requirement was read and judged on its merits. Markers were provided with specific guidance as to the characteristics of level 1, level 2 and level 3 answers for each separate requirement.

As always, the key to achieving a passing mark or better is to answer the question as set. Higher marks are awarded to fuller answers that are relevant and correct.

To achieve a level 3 in most traits it was expected that a candidate would demonstrate good technical understanding of the topic being tested through clear and comprehensive discussion and where asked justify their answer; the answer should of course be applied to Runnabout and the particular scenario within the task. That is particularly important at the Strategic level because corporate strategy must be matched to the entity and the business that it operates in. If a candidate scored at a level 1 on a trait it is likely that they did one or all of the following:

- Failed to address the requirement when answering the question.
- Demonstrated limited technical understanding, possibly with gaps in knowledge or understanding.
- Provided insufficient justification for arguments.
- Failed to reflect the scenario or the specifics of Runnabout in their answer.

## Variant 1

### Task 1

Task 1 was about a hacking incident in which riders were able to override the speed restrictions on their hoverboards. There were two requirements to this task.

The first requirement asked for the identification and explanation of the interests of the key stakeholders, who were listed in the scenario. This tested core activity B.

A level 3 answer would have offered a reasoned and logical assessment of the interests of the four groups of stakeholders who were named in the case. As with any professional activity there was scope for differences of opinion as to those interests, but a good answer would have started by considering why each of the stakeholders would be interested in the incident. There was evidence of logical thought, with some very good explanations of the differing interests of the stakeholder groups.

Level 2 answers tended not to give a full discussion of the interests of all four groups of stakeholders. Level 1 answers were often very short, some comprising only a classification of each stakeholder using Mendelow. Some candidates wasted time by discussing stakeholders other than those listed in the scenario.

The second requirement asked for an evaluation of the suggestion that the responsibility for managing this risk should be shared between four of the executive directors. This tested core activity D.

A level 3 answer would have recognised that there are both advantages and disadvantages to this proposal, even though the advantages are relatively weak. Better answers focussed on the fact that such a sharing of responsibility would increase the possibility that problems might be overlooked because each director could be inclined to leave the risk to the other three. There could be a limited advantage in that the sharing could lead to a greater degree of commitment to addressing the risk should further problems emerge.

Level 1 answers tended to offer relatively unrealistic arguments, such as individual Board members being heavily restricted in terms of their ability to address these risks.

## Task 2

Task 2 was about the ongoing implications of the event, namely the reduction in the share price and the creation of a captive insurance company.

The first requirement asked about the implications of the reduced share price. This tested core activity C.

A level 3 answer would have focussed on the meaning of a reduction in the share price, which should then have informed the discussion of its significance. The share price itself is essentially about the market's expectations concerning future cash flows. The share price does not necessarily have any economic significance for the company itself. It could, however, lead to problems for the directors in terms of their personal credibility in the eyes of the shareholders and, so, their future career prospects. It could also damage the value of any share-based payments or bonuses linked to share prices. Any such impact on the directors' personal circumstances could change their approach to managing the business.

Level 2 answers tended to explore a limited range of issues arising from the requirement, but still demonstrated some understanding. Level 1 answers tended to fall into the trap of repeating study text material on market efficiency, which has limited relevance in this requirement.

The second requirement asked about the implications of establishing a captive insurance company. This tested core activity A.

A level 3 answer would have focussed on both the risks and costs associated with such an arrangement. Self-insurance essentially means retaining the risks, rather than paying to have a third party accept those risks as a service. That would not necessarily be a serious problem for Runnabout because its insurance covers large numbers of hires, each of which has a relatively small level of risk in the event of a crash or other incident. In that case, it could be argued that the risk is manageable, and that self-insurance is significantly cheaper. Candidates had room to explore the wider implications of this issue and to identify ways in which things could go wrong.

Level 1 and 2 answers generally discussed the costs and said too little about the risks. Level 1 answers often missed the point by suggesting that there would be no costs or risks associated with self-insurance, which is wishful thinking.

### **Task 3**

Task 3 was about the response to the hacking incident. Runnabout's staff were tricked into providing the hackers with passwords and usernames that enabled them to access the system.

The first requirement asked about controls that might be introduced to prevent the social engineering that was the technique used by the hacker to obtain access to files and software. This tested core activity D.

A level 3 answer would have considered the nature of social engineering, namely that a stranger seeks assistance from an unsuspecting member of staff. This vulnerability can be addressed by making staff aware of the importance of safeguarding the access with which they have been entrusted. Many candidates addressed the need for clarity in communication and in making staff responsible for any decision to divulge sensitive details such as passwords.

The second requirement asked for tests that internal audit might use to check compliance with the controls recommended in the previous requirement. This tested core activity E.

A level 3 answer to the second requirement would have offered a realistic recommendation for tests that might reassure internal audit that the controls were operating correctly. Many candidates offered the pragmatic recommendation of having internal audit attempt social engineering in order to see whether staff could be persuaded to surrender their passwords. Any logical examples were accepted.

The third requirement asked whether staff members whom internal audit finds to be in breach should be subjected to disciplinary action. This tested core activity E.

A level 3 answer would have offered an opinion on this matter and would have provided support. This is a question that can be answered either way. There is an argument that disciplinary action could send a clear message to employees that they must adhere to regulations. Conversely, it could be argued that imposing sanctions in response to internal audit findings could damage relations between the auditors and the subjects of audit investigations. There was nothing to prevent candidates from supporting either perspective, provided they offered a relevant justification.

Candidates generally demonstrated an understanding of the issues in this requirement. Those who scored at levels 1 and 2 simply failed to develop their arguments fully.



## Variant 2

### Task 1

Task 1 introduced a possible new business collaboration with Steeltown located in the north of Geeland. Major re-development has taken place in Geeland following the departure of heavy industries which formerly sustained the local regional economy.

Steeltown has proposed making their city centre pedestrianised and have offered Runnabout the exclusive opportunity to create a network of hoverboard docks linking car parks, train and bus stations with the city centre, shopping malls, theatres and tourist attractions. In return Runnabout must agree not to set up operations anywhere else in the region within a 30-mile radius.

There were two requirements to the task, the first one requested candidates identify and explain two major strategic challenges that Runnabout will face in meeting Steeltown's needs and to recommend solutions. This tests core activity B Strategic risk.

On the whole this section was reasonably answered, candidates usually managed to give a sensible treatment on at least one strategic issue although some level 1 answers tended to relate to operational rather than strategic problems: longevity of battery power, access to servicing facilities, shortage of personnel.

Level 2 answers tended to give good focus on one strategic area, often the distribution and management of hoverboards in an area where vehicular traffic is banned. Solutions to the problems presented were sparse however with exempt vehicles being considered in the main.

Better answers went on to consider the timing of Steeltown's economic redevelopment and to question the net and evolving demand and the difficulties associated with matching this demand accurately.

Not many candidates considered the overall scale of investment required for the project. Or the potential reputational issues related to failure.

The second requirement requested candidates evaluate the strategic implications for Runnabout of agreeing not to serve Rivertown or any of the other towns within 30 miles of Steeltown. Again, testing requirements of core activity B strategic risk.

Many reasonable level 2 answers here considered that Runnabout currently have no specific intention to develop any service in this region for the foreseeable future. However, the explicit exclusion of Rivertown promoted the question with many that Rivertown might retaliate with a similar offering by a competitor therefore bringing competition into the region where before there had been none.

Better answers brought out the ongoing relationship and involvement with Steeltown. Runnabout appear to be bearing all the risk in this venture and are laying themselves open to having a struggle to maintain Steeltown in isolation as a good going concern.

Poorer answers tended to give very shallow consideration of the opportunity cost and often failed to see the dangers of unopposed competitor activity nearby.

## **Task 2**

Task 2 presents us with a further proposition by Steeltown whereby Runnabout are offered the purchase of Steeltown's public transport provider, in the region of a G\$800million investment.

This task was again in two parts with the first being to identify and explain the issues that Runnabout should consider when evaluating the acquisition opportunity.

Again, there were reasonable answers here with many highlighting the existing experience Runnabout has on its Board with the management of public transport.

Level 1 answers tended to assert what a good opportunity this was without taking many aspects into proper consideration.

Level 2 answers tended to consider the rate of return required in order to maintain the overall service in conjunction with the micro mobility business.

Better answers went on to question why the city council has problems with the current management. What levels of investment would be needed to introduce the new service? What is the current maintenance and refurbishment profile of the fleet and what is the profile of sustainable fuel vehicles already in existence?

Very few gave much consideration to the failure of the service and the reputational exposure involved were this to happen – those who did tended to focus on the financial aspects only.

The best level 3 answers considered long term partnership with the city council and a need to draw up detailed commitments from the council to provide unfettered support for the services they are requesting, i.e. ongoing subsidies for assisted passenger fares: the elderly, disabled and children. Freedom from a reversal of policies, i.e. maintaining bus access through the otherwise pedestrian areas of the city.

The second requirement asked candidates to evaluate the possibility that Runnabout might finance the acquisition by exchanging Runnabout shares with Steeltown City Council.

Again, the level 1 responses tended to give general acceptance of this proposal without giving deeper thought to the implications. Many gave a brief overview in generic terms of sources of finance, debt versus equity.

Level 2 answers were able to develop these ideas into more detailed definitions of value and whether value for money was being offered in the deal, what gains would Runnabout make in taking on SCCT. Better answers also focussed on the implications of having the city council as a future shareholder. What price would they demand of Runnabout: Board representation or interference with operational aspects of the business? Or they may gain too much insight into the running of the operation with potential for jeopardising future subsidies or investment decisions.

Again, the best level 3 answers looked at all the above plus looked to long term issues. How strategic is this fit? Does it match Runnabout's objectives? Does it bring a wider opportunity elsewhere in the region? Could the city council have unreasonable influence, will the relationship be sustained through changes in the political makeup of the council in future?

### **Task 3**

Task 3 brings in cyber and IT security issues by having a tablet containing unprotected sensitive data found in a coffee shop where Runnabout's Deputy Operations Director had misplaced it.

The first part tests core activity D by asking candidates to recommend with reasons the controls that Runnabout could put in place to prevent a recurrence of this loss of data.

This on the whole was very well answered. There were few level 1 answers – these tended to give a bullet point list of controls with little or no explanations or justifications.

Most candidates gave a good set of controls with reasonable and sensible recommendations, these scored at level 2. The controls included physical BYOD controls: encryption, GPS tracking, 2 phase authentications. Better answers also defined cyber risk as needing effective training and policy set up.

Level 3 answers gave a comprehensive list of standard controls with effect and effectiveness discussed. These took all the above and added differentiation between physical device and logical data access, highlighted that the “Individual is the weak link” and generally gave a strong impression that they had studied and understood the subject material in real life.

The second requirement asked candidates to advise with reasons whether it would be ethical for the individual to defend herself against dismissal by arguing that she is a hard-working executive. Testing ethical requirements of reputational risk is core activity A.

Some level 1 answers here tended to be lenient on Rana, tending to largely ignore the ethical requirement requested in the question.

Level 2 answers gave clear indications of the importance of fairness in applying the rules equally to all levels of employees. Better answers gave increasing layers of argument about the different ethical principles breached.

The best answers gave arguments in all areas: objectivity, confidentiality, professional competence and due care, with many arguing that to maintain integrity Rana should not defend herself at all but rather should come clean on the whole situation.

Very few candidates who gave considered arguments actually passed judgement and declared whether or not Rana should be dismissed.

## **Variant 3**

### **Task 1**

Task 1 introduced candidates to the issue of the declining lifespan of the hoverboards used by Runnabout, which are supplied by Minnerring, a company based in Deeland. Candidates were presented with an engineering report which detailed the declining lifespan of the hoverboards and the potential causes.

The first requirement asked candidates to explain why the Board should manage the lifespan of the hoverboards as a critical success factor (CSF) and how this should be done.

A level 3 response to this requirement demonstrated a sound understanding of CSFs and more importantly, discussed a range of reasons why the lifespan of the hoverboards was a critical success factor for Runnabout. The focus of such answers was on key critical success factors such as the impact on Runnabout's costs and therefore profit and the impact on customer behaviour. Level 3 and some level 2 answers made good use of the engineering report data to suggest ways in which the Board could manage hoverboard lifespan.

Level 1 responses took several forms. Some level 1 answers summarised textbook definitions of critical success factors, with little or no application to the scenario. Other level 1 answers presented theoretical responses or failed to consider at all how the Board should manage the lifespan of the hoverboards, therefore failing to answer the requirement.

The second requirement asked candidates to assess whether the declining useful life of the hoverboards would impact on Runnabout's share price.

A level 3 response to this requirement would have recognised that shareholders would be able to infer much about Runnabout's business from a wide variety of sources, such as Minnerring's own published accounts. Level 3 and some level 2 answers also considered the impact on the share price of the Board's reluctance to make a public statement about the declining lifespan of the hoverboards.

Some level 3 answers also made sound reference to the pre seen material, reflecting on the fact that the book value of property, plant and equipment has increased significantly suggesting that Runnabout had invested heavily in new assets, thus enabling the markets to infer something about the ongoing cost of replacing scrapped hoverboards.

Some level 2 and the level 1 answers were generally not as well developed and tended to focus more on theoretical discussions/ explanations of the EMH and dividend valuation model than on the actual practical inferences that were evident from the case study material.

## Task 2

Task 2 presented candidates with a newspaper article highlighting the news of the recent election results in Deeland, the home country of Runnabout's sole hoverboard supplier, Minnerring. The main points from the article were that interest rates in Deeland were expected to fall and that the D\$ had strengthened against Runnabout's home currency, the G\$.

The first requirement asked candidates to consider the challenges associated with evaluating the currency risks of trading with Minnerring, and the significance of these risks. The requirement specifically asked candidates to consider the *challenges* of evaluating the currency risks and NOT what are the currency risks.

A level 3 response to this question would have made good use of the newspaper article information to recognise the impact that the recent political changes and current turmoil in the Deeland economy would have on evaluating the currency risk. Such answers would also have recognised the impact that the pattern of large and irregular payments made to Minnerring would have on the currency fluctuations experienced and the mitigation techniques possible.

Level 1 answers to this requirement tended to be focussed on description or discussions of transaction, translation and economic risks at little more than a theoretical level. Also, some candidates spent far too much time discussing a range of hedging techniques in great depth, which was not actually required.

The second requirement of the question asked candidates to assess the strategic implications of relying exclusively on Minnerring for its hoverboards.

A level 3 response to this requirement would have presented a balanced answer, considering both positive and negative implications of relying exclusively on Minnerring for replacement hoverboards. However, few answers covered positive aspects of relying exclusively on Minnerring, such as familiarity with the supplier and Runnabout being in a strong position to negotiate discounts.

Most answers to this requirement achieved a level 2 as although they focussed entirely on the negative implications of relying exclusively on Minnerring for replacement hoverboards, overall, such answers sufficiently identified and discussed several relevant and applied negative implications. These included an over-dependency on a sole supplier, a potential abuse of power by this sole



supplier and the potential impact on our own reputation of any negative/unethical activities carried out by Minnerring. However, most level 2 responses could certainly have been improved if they had been better balanced.

Level 1 responses tended to identify potential implications without offering any meaningful explanation. That made it difficult to tell whether the implications were significant. Such answers were often undeveloped and considered an insufficient number of strategic implications.

### **Task 3**

Task 3 focussed on a trial carried out by Runnabout in Western City to modify its hoverboards to try to extend their useful lives. The trial involved introducing weight sensors to detect excess loads and reprogramming hoverboards to stop if ridden over kerbs or too fast. The exhibit for this section was a newspaper article suggesting that these modifications were discriminating against some customers and were dangerous to customers due to hoverboards slowing down without warning.

The first requirement asked candidates to assess whether the modifications of the hoverboards in Western City were unethical.

A level 3 response to this requirement would have related relevant ethical principles to the modifications made by Runnabout. Many candidates presented well-applied and well-balanced answers to this requirement, considering both potential ethical and unethical aspects of the modifications. Some level 3 answers focussed on the most relevant ethical principles and discussed these well, rather than trying to apply all the ethical principles without real justification or application to the case material.

Level 1 responses were often very theoretical with little or no attempt to relate theoretical knowledge of the ethical principles to the case material.

The second requirement asked candidates to recommend whether the risk committee should evaluate the results of the trial before deciding whether the modifications should be applied to all Runnabout's hoverboards.

Level 3 responses tended to focus on both why the trial results should be evaluated and also considered the counter argument of why there may be no need to wait for the trial results before commencing modifications to all of Runnabout's hoverboards (for example, limited further insights and that the risk committee could appear indecisive if they delay the decision). However, it was disappointing to see very few candidates providing well-balanced answers to this requirement. Therefore, few responses to this requirement achieved a level 3.



Level 1 answers presented descriptions of the role and activities of the risk committee and the audit committee in general, with little or no application to the task requirement.

## **Variant 4**

### **Task 1**

Task 1 provided an email explaining that Runnabout's engineering teams in several cities have had complaints from users that they are not receiving the codes they need to release a hoverboard from a dock. They have been redirected to a bogus website which has asked for names and credit card details. An emergency Board meeting has been called.

The first requirement asked what actions Runnabout could take in response to the data breach and what strategic implications those actions might have.

A level 3 response gave a clear explanation of several options it would be appropriate to consider and included well-justified discussion of the strategic implications they could have. Appropriate options to consider included temporarily suspending services, contacting credit card companies, making a public statement and also taking no action until more is known. Level 3 responses clearly linked the actions to their strategic implications.

Level 2 responses identified strategic options but did not fully explain them. Some answers at this level adopted a scattergun approach, suggesting many possible actions but not differentiating between them.

Level 1 answers identified some options without sufficient explanation. Some answers at this level omitted discussion of the strategic implications or discussed the implications of the breach rather than the implications of the actions taken by Runnabout in response to it.

The second requirement asked what objectives the Runnabout Board should set for Lim Sheng Yang, the Head of IT Security for the first 24 hours following discovery of the security breach.

Level 3 answers discussed a range of appropriate objectives, which could have included reaching an initial conclusion about the cause of the incident, identifying how long it might take for the IT security department to identify the users whose data has been compromised, preparing a report for the Board and preparing a plan for preventing a recurrence of the incident.

Level 2 responses identified some appropriate objectives, but many answers at this level did not recognise the practical limitations of the 24-hour timescale. For example, organising training for all staff would not be possible in 24 hours. Discussions at this level were often superficial and arguments not well developed.

Level 1 responses identified some possible objectives but did not develop their discussion and the objectives suggested were often ones which would not be feasible within 24 hours.

## **Task 2**

In task 2, the user accounts have been suspended and an email is being drafted to send to users whose accounts have been accessed. The candidate is asked to prepare a paper for the next Board meeting.

The first requirement asks what the long-term impact the data breach will have on Runnabout's share price.

Level 3 responses gave a clear and comprehensive discussion of the impact, considering both the impact on future cash flows and the perception of risk. Valid points for discussion included the efficient market hypothesis, the possibility that the markets could be reassured by Runnabout's handling of the crisis and the possibility of permanent impact on the share price.

Level 2 responses were often less well developed and many took too general and theoretical an approach, for example correctly explaining market efficiency but not using the information in the scenario in their discussion.

Level 1 responses identified some issues but did not provide sufficient discussion. Some focussed on the likely short-term impact on share prices rather than long term as specified in the question.

The second requirement asked the candidates to evaluate the possible criticism that the data breach arose because of poor governance by the Board.

Level 3 answers gave a comprehensive explanation of the possible criticism, including both the responsibilities of the Board and the perception and reality of the Board's governance. Valid points for discussion included the Board's overall responsibility for the data breach, stakeholders' expectations of the effectiveness of control systems and the messages the Board is sending to users.

Level 2 responses were less well developed and often too general, discussing generic governance issues such as the operation and composition of Board committees and including points which were technically correct but not necessarily relevant to the scenario.

Level 1 responses often recognised the Board's responsibility but did not give sufficient relevant explanation and discussion.

### **Task 3**

Task 3 introduced a letter from a consultancy company which claims it can prevent any further unauthorised access to Runnabout's data. The letter included information on their approach and their team of consultants, as well as the fees they would charge.

The first requirement asked the candidates to evaluate the claim that the consultancy can prevent any further unauthorised access to Runnabout's system.

Level 3 responses used the information provided in the letter to present a full discussion of the claim, covering both positive and negative aspects. For example, the consultancy is trying to sell its services and may therefore be exaggerating their ability to prevent a recurrence of the data breach, and it would not be possible to protect Runnabout from any incompetence or dishonesty of its staff.

Level 2 responses were less well developed, and many only recognised the positive aspects of the letter, accepting the points it made without questioning whether its claims were likely to be justifiable.

Level 1 answers discussed the letter without any meaningful evaluation.

The second requirement asked the candidate to identify the currency risks that Runnabout would face as a result of this agreement with the consultancy and to recommend how those risks should be managed.

Level 3 responses gave a full discussion of the implications of the payments to the consultancy and provided practical advice on how the risks could be managed. Valid points included the fact that the economy underlying the E\$ is weak which could imply that the currency will weaken and the future payments by Runnabout are likely to decline, making the currency upside risk more likely than the downside. They also included discussion of the payment schedule, as the pattern of payments is a relevant consideration.

Level 2 answers were often less relevant, with candidates explaining transaction, translation and economic risk with little reference to the specific situation presented here. Advice on managing currency risk was again often too general, with candidates offering textbook lists of possible hedging methods but not considering which would be most appropriate in this situation.

Level 1 answers often identified some of the issues but showed limited technical knowledge.



## Variant 5

### Task 1

Task 1 introduced candidates to the proposal of switching Runnabout's data storage and processing to a foreign cloud service provider. Candidates were presented with an executive summary from Runnabout's IT Director which outlined the key reasons for the proposal.

The first requirement asked candidates to assess the strategic implications for Runnabout of transferring its IT system to a cloud service provider.

A level 3 response to this requirement demonstrated a clear and comprehensive assessment of a range of strategic implications, including cost, flexibility, security, scalability and control issues. Level 3 and some level 2 answers made good use of the executive summary together with their knowledge of cloud computing to assess the most relevant strategic implications of such a decision. Some candidates used the SAF approach to structure their answer, which was appropriate, if focussed on the strategic implications.

Level 1 responses tended to focus on more short-term implications of the decision, for example, redundancy issues/costs rather than the long-term strategic implications.

The second requirement asked candidates to assess the currency risks associated with using a cloud service provider that is invoiced in a foreign currency and how these risks could be mitigated.

A level 3 response to this requirement offered a clear and comprehensive assessment of the currency risks specific to being invoiced in the home currency of the selected foreign cloud service provider. Level 3 and some level 2 answers also then presented a good range of well-argued suggestions for mitigating such currency risks.

Some level 3 answers correctly discussed how the risk could most effectively be mitigated through selection of a cloud service provider whose home currency is not too volatile in relation to the G\$.

Some level 2 and level 1 answers were generally focussed more on theoretical discussions of currency risks and hedging techniques or failed to adequately explain the nature of the risk.

Mitigations were again discussed well with a lot of level 2 answers identifying a range of suitable internal and external hedging techniques. Level 3 answers also included matching/netting and looking for alternative service providers in countries with more stable currencies.

## **Task 2**

Task 2 presented candidates with a newspaper article highlighting the news that the Geeland government was in the process of drafting strict new laws to make company directors responsible for safeguarding details relating to Geeland citizens, following the tendency of Geeland business to shift data storage to foreign clouds service providers.

The first requirement asked candidates to evaluate the role that the city councils might play as stakeholders in the decision to move to the cloud.

A level 3 response to this question considered the current level of power and interest that the councils have in our business and then would have assessed how the decision to move to cloud computing could impact on this level of power and interest. Level 3 and some level 2 responses recognised that the city councils are an important stakeholder and their level of interest would likely increase as a result of the decision to move to the cloud. Importantly, strong answers clearly assessed the role they would play in either supporting or potentially blocking Runnabout's decision and made good use of the reference material to support their answer.

Level 1 responses to this requirement were more descriptive of the position of the city councils as a stakeholder, with limited discussion of the role that they could play in the decision. Level 1 answers made limited use of the reference material to support their answer.

The second requirement introduced the proposal to increase this year's dividend to 40% more than last year's dividend payment, following the release of a significant amount of cash from the disposal of the data centre. Candidates were asked to evaluate the implications of making such a dividend payment.

Level 3 responses offered a clear and comprehensive evaluation of the impact of such a dividend payment on a range of factors, such as Runnabout's cash position, the perceptions of its shareholders and the perception of the market. Level 3 answers would also reflect on the fact that such a decision suggests that the Board has lost its strategic direction to invest for future growth and development of the business. Level 3 answers also recognised that there would be cash flow problems in meeting this level of dividend payment.

Most answers to this requirement achieved a level 2 score, with many candidates correctly discussing the impact on the cash position and the potential reactions of its shareholders. Some level 2 responses also included discussions of debt reduction and new

opportunities with a few stating that Runnabout needed diversity in their business operations. Signalling, clientele factors and bird in the hand were reasonably well discussed. However, taxation was only raised in very few responses.

Level 1 responses were largely theoretical, with limited focus on the implications of such a dividend policy on Runnabout. Such answers described concepts such as the Signalling Effect but did not adequately apply the consequences of these to Runnabout. Candidates who presented concepts with limited application to Runnabout did not score well.

### **Task 3**

Task 3 introduced an extract from a Board meeting outlining a briefing by the IT Director on some of the implications of switching to the cloud. The exhibit presented some detail of Cloudharr, the selected foreign cloud service provider.

The first requirement asked candidates to recommend the disclosures that Runnabout should make in its annual report on principal risks in respect of the switch to Cloudharr.

Level 3 responses to this requirement offered clear and well supported recommendations for the principal risks that should be disclosed as a result of engaging the services of Cloudharr and presented a range of associated mitigations for the risks discussed. These answers made good use of both the pre-seen material and the task reference material to identify the relevant additional risks and how these should be reported by Runnabout. Stronger answers recognised and focussed on the key risk associated with Cloudharr's insistence that clients cannot conduct their own security investigations on its data centres.

Level 2 responses to this requirement presented a reasonable range of appropriate risks with limited reference to the mitigation of these risks. Although mitigating factors were not specifically asked for, it was expected that candidates would have recognised the need to report these within the risk report.

Level 1 responses were largely descriptive of the risks that should be presented and made very limited use of the reference material. Level 1 responses were generally not well structured, with candidates merely listing the problems Runnabout would face and failing to rank their importance and whether they needed specific inclusion in the report.

The second requirement asked candidates to evaluate the argument that Runnabout's Board should be held accountable for the security of the data held by Cloudharr.



Level 3 responses offered a clear and comprehensive assessment of the extent of the Board's accountability for the security of its data. These answers recognised that the Board is as responsible for the security of its data as it would be if the data was managed and processed in house.

Level 1 responses presented only a limited range of reasons why the Board should take accountability for its data security or concluded that Runnabout's Board was no longer accountable for the security of its data.

## **Variant 6**

### **Task 1**

Task 1 introduced an opportunity to make Runnabout's first foreign investment. This would be aimed at the tourist market in Coastland's beach resorts.

The first requirement asked for a discussion of the issues arising from assessing the suitability of this opportunity.

A level 3 answer would have focussed on suitability, considering whether the investment would fit in with Runnabout's overall strategy. A significant number of candidates discussed suitability and then went on to add a discussion of acceptability and feasibility. Nevertheless, there was evidence of level 3 thinking, with many candidates addressing the nature of the project.

Level 1 and 2 answers often failed to address suitability and simply offered an unstructured discussion of their views on this opportunity.

The second requirement asked for an evaluation of the business risks that the investment would create and requested recommendations for their management.

A level 3 answer would have started by identifying the specific issues arising from this proposal. Many of the risks arising from existing operations would still apply, but Runnabout's Board would be more interested in the specific risks arising from this venture. For example, the target market is very different, with the needs of tourists being different from those of commuters and the demographic of the markets being very different.

Answers at levels 1 and 2 generally lacked relevance, discussing risks that would have been unlikely to arise in the scenario.

### **Task 2**

The second task introduced concerns that it would be illegal for Runnabout to operate its service in Coastland. That raises a number of issues, including potential conflict between different government departments within Coastland over the need to change the law.

The first requirement asked about engaging stakeholders.

A level 3 response to this requirement would have focussed on the stakeholders who would have the ability to affect Runnabout's plans with reward to this new venture. Many candidates started using Mendelow as the basis for justifying their selection of individual stakeholders. While that framework was not mandatory, it did support the relevance. Better answers were specific with regard to the selection of stakeholders. For example, the candidates who identified the Ministry for Tourism and the Ministry for Transport as having different power and interests tended to produce better answers than those who cited "government" as a generic stakeholder. The latter approach tended to yield a level 2 answer.

The second requirement asked about the ethical implications of attempting to change the law.

Level 3 answers generally recognised that there is an ethical conflict in this case. Coastland's government has both the right and the duty to set laws that protect its citizens from harm. Conversely, Runnabout is proposing a very specific change to the law that could boost employment and the local economy. Some candidates developed these themes further by considering the ethical issues associated with the manner in which Runnabout lobbied.

Level 1 and 2 answers tended to focus more on the fundamental principles, with little or no attempt to apply them to the scenario or the requirement.

### **Task 3**

The third task dealt with the issues surrounding a proposal that Runnabout should hold a meeting to brief market analysts on major new plans.

The first requirement asked whether the briefing could affect the share price, bearing in mind that the analysts would be required to sign a non-disclosure agreement prior to participating.

A level 3 response to this requirement would have considered the manner in which information could become available to the capital markets. If the analysts respect their non-disclosure agreements then the information that is released to the participants will not become available to the markets generally, in which case it could be argued that the share price cannot be expected to react. Many candidates thought beyond this and highlighted logical ways in which the markets might infer the facts. For example, if the analysts encourage their employers to buy additional shares then the market might assume that they have been encouraged by positive news from the briefing. Some candidates thought this through even further and argued that Runnabout would be unlikely to hold a meeting unless it had positive news to share with the analyst community and so the markets might be encouraged by that.



Level 1 and 2 answers simply described market efficiency and its three levels, without relating that description to the scenario.

The second requirement asked whether it was acceptable for the non-executive chairman to have refused permission to vote on whether to proceed with the analysis briefing.

A level 3 response to this question would have focussed on issues associated with the duties and responsibilities of executive and non-executive Board members. The issue was not the briefing in itself, but the question of whether the Board should have been permitted to vote on whether or not to proceed. Stronger answers developed arguments relating to the respective responsibilities of the Board as a whole and the non-executive chair in managing the Board.

Level 1 and 2 answers tended to focus more on the question of whether the meeting should proceed rather than the question of whether the Board should be permitted a vote on the matter.

## **Tips for future candidates**

Good answers require:

- relevance to the requirement
- the necessary technical knowledge of the syllabus content
- the ability to apply that knowledge to a specific scenario, as specified in the case
- well-structured answers, with good use of paragraphs to clarify the development of an explanation
- justification of the arguments made in the answer.

This can be achieved as follows:

The following hints and tips should be considered if you plan to sit the SCS in November 2020:

Before the exam:

1. Make sure that you understand the study materials for the pillars that feed into the SCS. It is not sufficient to be able to recall the content at the Strategic level because tasks will generally require some application to a scenario. Do not leave gaps when studying, ensure that you have studied all three pillars.
2. Take time to be familiar with the preseen materials. The SCS frequently asks for recommended responses to strategic threats and opportunities. You will be expected to be prepared to advise the Board on strategic issues relating to a specific company and its industry.
3. Invest time in writing answers to previous SCS cases. The skills required to create and justify relevant answers require practice to develop and maintain. In preparing for the SCS you should attempt past cases by typing out full answers and then reviewing them. Write out answers – do not just gloss over questions and imagine you know the answer, ask yourself whether you would feel confident about submitting those arguments to a Board of directors. Are your recommendations logical? Are they clear and properly justified?

During the exam:

1. Answer the question. No matter how obvious that seems, examiners complain that candidates often miss the question. Revising for the SCS requires that you study and learn a number of different models and theories for each of the three pillars. Tasks will generally expect that material to provide a suitable structure for answers, but the key is to apply that knowledge to the scenario. Candidates frequently offer detailed summaries of syllabus content, with little or no reference to the scenario. Answers must relate to the scenarios or few marks will be awarded.
2. Focussing on answering the question extends to issues such as presentation and tone. Marks are not allocated for setting out documents in a specific way. Similarly, it may be necessary to answer in a manner that could prove unpopular with senior managers, perhaps by recommending the rejection of a proposal made by one of the directors. The best way to deal with that is to offer a clear and relevant argument that satisfies the requirement.
3. Use time wisely. There are three tasks, with an hour allocated to each. The tasks are subdivided into separate requirements, with recommendations as to the weighting for each requirement. If you have, say, 24 minutes available for a requirement then you should aim to spend roughly that amount of time on it. It is probably unwise to pinch time from another requirement to make that answer as full as it can possible be. If you run out of ideas before the time has elapsed then it might be better to spend some of the time left over thinking about possible ways of expanding that answer, rather than returning to an easier requirement. It is, of course, worth using the whole hour for each task, even if that does mean reviewing and expanding answers.
4. No matter how tempting it is, do not waste time in providing irrelevant material that does not answer the question. Candidates for the SCS often investigate the industry and learn about recent events in the business news. The insights from such background research can often help develop answers. For example, Runnabout is part of a larger micro mobility industry and that has been written about extensively because it is topical and has had a significant impact on many cities. The danger is that candidates often feel obliged to offer real-world examples that do not relate to the task. Credit is given for all relevant points made in the answer, including illustrations from the real world. Irrelevant points will simply waste time, even if they demonstrate prior reading.



**Strategic Level Case Study May-August 2020**  
**Marking Guidance**  
**Variant 1**

**About this marking scheme**

This marking scheme has been prepared for the CIMA 2019 professional qualification Strategic Level Case Study [May-August 2020].

The indicative answers will show the expected or most orthodox approach; however the nature of the case study examination tasks means that a range of responses will be valid. The descriptors within this level-based marking scheme are holistic and can accommodate a range of acceptable responses.

General marking guidance is given below, markers are subject to extensive training and standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken not to make too many assumptions about future marking schemes on the basis of this document. While the guiding principles remain constant, details may change depending on the content of a particular case study examination form.

**General marking guidance**

- Marking schemes should be applied positively, with candidates rewarded for what they have demonstrated and not penalised for omissions.
- All marks on the scheme are designed to be awarded and full marks should be awarded when all level descriptor criteria are met.
- The marking scheme and indicative answers are provided as a guide to markers. They are not intended to be exhaustive and other valid approaches must be rewarded. Equally, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks.



- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.  
Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

### How to use this levels-based marking scheme

#### **1. Read the candidate's response in full**

#### **2. Select the level**

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

#### **3. Select a mark within the level**

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	B	Evaluate business ecosystem and business environment.	60%
(b)	D	Evaluate and mitigate risk.	40%
Section 2			
(a)	C	Recommend financing strategies.	50%
(b)	A	Develop business strategy.	50%
Section 3			
(a)	D	Evaluate and mitigate risk.	40%
(b)	E	Recommend and maintain a sound control environment.	30%
(c)			30%



SECTION 1			
<b>Task (a) Identify</b> and explain the interests of the key stakeholders.			
<b>Trait</b>			
CCSS	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	<b>Level 1</b>	Identifies key stakeholder interests	1-2
	<b>Level 2</b>	Provides an explanation of key stakeholder interests	3-4
	<b>Level 3</b>	Provides a clear and full explanation of key stakeholder interests	5-6
Emergency svc	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	<b>Level 1</b>	Identifies key stakeholder interests	1
	<b>Level 2</b>	Provides an explanation of key stakeholder interests	2-3
	<b>Level 3</b>	Provides a clear and full explanation of key stakeholder interests	4-5
Insurers	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	<b>Level 1</b>	Identifies key stakeholder interests	1
	<b>Level 2</b>	Provides an explanation of key stakeholder interests	2-3
	<b>Level 3</b>	Provides a clear and full explanation of key stakeholder interests	4-5
Users	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	<b>Level 1</b>	Identifies key stakeholder interests	1
	<b>Level 2</b>	Provides an explanation of key stakeholder interests	2-3
	<b>Level 3</b>	Provides a clear and full explanation of key stakeholder interests	4-5
<b>Task (b) Evaluate</b> the CEO's proposal that the four executive directors should collectively own and manage the risk of users modifying our hoverboards.			
<b>Trait</b>			
Collective	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	<b>Level 1</b>	Identifies the arguments for a collective responsibility	1-2
	<b>Level 2</b>	Provides a discussion of the arguments for a collective responsibility	3-4

	<b>Level 3</b>	Provides a clear and logical evaluation of the arguments for a collective responsibility	<b>5-6</b>
Individual	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the arguments for an individual responsibility	<b>1-2</b>
	<b>Level 2</b>	Provides a discussion of the arguments for an individual responsibility	<b>3-4</b>
	<b>Level 3</b>	Provides a clear and logical evaluation of the arguments for an individual responsibility	<b>5-6</b>

SECTION 2			
<b>Task (a) Explain</b> the implications of the fall in our share price for Runnabout's Board and the company itself. The share price has stabilised at 25% less than it was before the news of the accidents was released, but bear in mind the news was only published a few days ago.			
<b>Trait</b>			
Board	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the implications of the fall in share price for Runnabout's Board	<b>1-3</b>
	<b>Level 2</b>	Provides an explanation of the implications of the fall in share price for Runnabout's Board	<b>4-6</b>
	<b>Level 3</b>	Provides a comprehensive explanation of the implications of the fall in share price for Runnabout's Board	<b>7-9</b>
Funding	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the implications of the fall in share price for Runnabout's future funding	<b>1-2</b>
	<b>Level 2</b>	Provides an explanation of the implications of the fall in share price for Runnabout's future funding	<b>3-5</b>
	<b>Level 3</b>	Provides a comprehensive explanation of the implications of the fall in share price for Runnabout's future funding	<b>6-8</b>
<b>Task (b) Explain</b> the strategic implications for Runnabout of the Group establishing its own captive insurance company.			
<b>Trait</b>			
Operations	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the impact on Runnabout's operations	<b>1-3</b>
	<b>Level 2</b>	Provides an explanation of the impact on Runnabout's operations	<b>4-6</b>
	<b>Level 3</b>	Provides a comprehensive explanation of the impact on Runnabout's operations	<b>7-9</b>
Risks	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>



	<b>Level 1</b>	Identifies the impact on Runnabout's risks	<b>1-2</b>
	<b>Level 2</b>	Provides an explanation of the impact on Runnabout's risks	<b>3-5</b>
	<b>Level 3</b>	Provides a comprehensive explanation of the impact on Runnabout's risks	<b>6-8</b>

SECTION 3			
<b>Task (a) Recommend</b> , with reasons, the controls that should be put in place to prevent Runnabout's employees being victims of social engineering.			
<b>Trait</b>			
Security	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the need for security measures	<b>1-2</b>
	<b>Level 2</b>	Recommends and justifies security measures that should be put in place	<b>3-5</b>
	<b>Level 3</b>	Recommends, with good justification, security measures that should be put in place	<b>6-8</b>
Training	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the need for staff training	<b>1</b>
	<b>Level 2</b>	Recommends and justifies the staff training that should be put in place	<b>2-3</b>
	<b>Level 3</b>	Recommends, with good justification, the staff training that should be put in place	<b>4</b>
<b>Task (b) Recommend</b> tests that Runnabout's Internal Audit department might use to check that staff are complying with those controls.			
<b>Trait</b>			
Evidence	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies evidence that might be gathered	<b>1-2</b>
	<b>Level 2</b>	Recommends suitable evidence that might be gathered	<b>3-4</b>
	<b>Level 3</b>	Recommends, with justification, suitable evidence that might be gathered	<b>5-6</b>
Attempt Intrusion	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies possibility of penetration attempt by audit	<b>1</b>
	<b>Level 2</b>	Recommends, with justification, penetration attempt by audit	<b>2-3</b>

	<b>Level 3</b>	Recommends, with justification and suggested approach, penetration attempt by audit	<b>4-5</b>
<b>SECTION 3 (continued)</b>			
<b>Task (c) Evaluate</b> the argument that any staff member who is found by our Internal Audit department to have been in breach of controls should be disciplined.			
<b>Trait</b>			
Arguments for	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the case for disciplinary action	<b>1</b>
	<b>Level 2</b>	Offers a clear argument of the case for disciplinary action	<b>2-3</b>
	<b>Level 3</b>	Offers a clear and comprehensive argument of the case for disciplinary action	<b>4</b>
Arguments against	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the case against disciplinary action	<b>1-2</b>
	<b>Level 2</b>	Offers a clear argument of the case against disciplinary action	<b>3-4</b>
	<b>Level 3</b>	Offers a clear and comprehensive argument of the case against disciplinary action	<b>5-6</b>





**Strategic Level Case Study May-August 2020**  
**Marking Guidance**  
**Variant 2**

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- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

### Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting(% section time)
Section 1			
(a)	A	Develop business strategy.	40%
(b)	B	Evaluate business ecosystem and business environment.	60%
Section 2			
(a)	A	Develop business strategy.	40%
(b)	C	Recommend financing strategies.	60%
Section 3			
(a)	E	Evaluate and mitigate risk.	50%
(b)	D	Recommend and maintain a sound control environment.	50%

### SECTION 1

<b>Task (a) Identify and explain</b> two major strategic challenges that we will face in meeting Steeltown's needs and recommended solutions.			
<b>Trait</b>			
Challenge 1	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies and describes a strategic challenge	<b>1-2</b>
	<b>Level 2</b>	Identifies a strategic challenge and recommends a solution	<b>3-4</b>
	<b>Level 3</b>	Identifies a strategic challenge and recommends a solution, with good justification	<b>5-6</b>
Challenge 2	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies and describes a strategic challenge	<b>1-2</b>
	<b>Level 2</b>	Identifies a strategic challenge and recommends a solution	<b>3-4</b>
	<b>Level 3</b>	Identifies a strategic challenge and recommends a solution, with good justification	<b>5-6</b>
<b>Task (b) Evaluate</b> the strategic implications for Runnabout of agreeing not to serve Rivertown or any of the other towns within 30 miles of Steeltown.			
<b>Trait</b>			
Opportunity cost	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes the opportunity costs associated with this agreement	<b>1-2</b>
	<b>Level 2</b>	Discusses the opportunity costs associated with this agreement	<b>3-4</b>
	<b>Level 3</b>	Offers a clear and comprehensive discussion of the opportunity costs associated with this agreement	<b>5-6</b>
Agreement	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the possibility that this agreement will set a dangerous precedent for future expansion into other cities	<b>1</b>
	<b>Level 2</b>	Discusses the possibility that this agreement will set a dangerous precedent for future expansion into other cities	<b>2-3</b>
	<b>Level 3</b>	Offers a clear and comprehensive discussion of the possibility that this agreement will set a dangerous precedent for future expansion into other cities	<b>4-5</b>

Competition	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes the competitive implications associated with this agreement	<b>1</b>
	<b>Level 2</b>	Discusses the competitive implications associated with this agreement	<b>2-3</b>
	<b>Level 3</b>	Offers a clear and comprehensive discussion of the competitive implications associated with this agreement	<b>4-5</b>
Support	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies possibility that agreeing could lead to Steeltown choosing not to support Runnabout	<b>1</b>
	<b>Level 2</b>	Discusses the possibility that agreeing could lead to Steeltown choosing not to support Runnabout	<b>2-3</b>
	<b>Level 3</b>	Offers a clear and comprehensive discussion of the possibility that agreeing could lead to Steeltown choosing not to support Runnabout	<b>4-5</b>

<b>SECTION 2</b>			
<b>Task (a) Identify and explain</b> the issues that we should consider when evaluating this acquisition opportunity.			
<b>Trait</b>			
Returns	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>

		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the need for an acceptable return	<b>1</b>
	<b>Level 2</b>	Explains the need to obtain an acceptable return	<b>2</b>
	<b>Level 3</b>	Offers a full explanation of the need for an acceptable return from the acquisition	<b>3</b>
Synergies	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes the synergies that would be required, and the challenges associated with benefitting from those	<b>1-3</b>
	<b>Level 2</b>	Discusses the synergies that would be required, and the challenges associated with benefitting from those	<b>4-6</b>
	<b>Level 3</b>	Offers a full and comprehensive discussion of the synergies that would be required, and the challenges associated with benefitting from those	<b>7-9</b>
<b>Task (b) Evaluate</b> the possibility that we might finance this acquisition by exchanging Runnabout shares for SCCT shares with Steeltown City Council, assuming that we agree to acquire SCCT.			
<b>Trait</b>			
Funding	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes debt v equity	<b>1-2</b>
	<b>Level 2</b>	Discusses the funding implications associated with a share exchange	<b>3-4</b>
	<b>Level 3</b>	Offers a full and comprehensive discussion of the funding implications associated with a share exchange	<b>5-6</b>
Incentives	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies possible incentive issues associated with Steeltown's ownership of shares	<b>1</b>
	<b>Level 2</b>	Discusses the possible incentive issues associated with Steeltown's ownership of shares	<b>2-3</b>
	<b>Level 3</b>	Offers a full and comprehensive discussion of the possible incentive issues associated with Steeltown's ownership of shares	<b>4-5</b>
Advantage	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>



Relationship		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies cash saving as an issue	<b>1</b>
	<b>Level 2</b>	Discusses cash saving through share exchange	<b>2-3</b>
	<b>Level 3</b>	Offers a full discussion of cash saving through share exchange	<b>4-5</b>
	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes the relationship that would be created with Steeltown City Council	<b>1-3</b>
	<b>Level 2</b>	Discusses the relationship that would be created with Steeltown City Council	<b>4-7</b>
	<b>Level 3</b>	Offers a full and comprehensive discussion of the relationship that would be created with Steeltown City Council	<b>8-10</b>

### SECTION 3

**Task (a) Recommend**, stating reasons, the controls that Runnabout could put in place to prevent a recurrence of this loss of compromising data.

<b>Trait</b>			
Recommendations	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>

	<b>Level 1</b>	Describes controls	<b>1-2</b>
	<b>Level 2</b>	Offers sensible and relevant recommendations	<b>3-5</b>
	<b>Level 3</b>	Offers a clear and comprehensive set of sensible and relevant recommendations	<b>6-8</b>
Justifications	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Offers some justification for recommendations	<b>1-3</b>
	<b>Level 2</b>	Offers clear justification for recommendations	<b>4-6</b>
	<b>Level 3</b>	Offers full and logical justification for recommendations	<b>7-9</b>
<b>Task (b) Advise</b> , stating reasons, whether it would be unethical for Rana to defend herself against dismissal by arguing that she is a busy and hard-working executive.			
<b>Trait</b>			
Principles	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describe ethical principles	<b>1-2</b>
	<b>Level 2</b>	Identifies relevant ethical principles and links them to scenario	<b>3-5</b>
	<b>Level 3</b>	Identifies full set of relevant ethical principles and links them to scenario	<b>6-8</b>
Application	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Offers some justification for arguments	<b>1-3</b>
	<b>Level 2</b>	Offers clear justification for arguments	<b>4-6</b>
	<b>Level 3</b>	Offers clear and comprehensive justification for arguments	<b>7-9</b>



## **Strategic Level Case Study May - August 2020**

### **Marking Guidance**

#### **Variant 3**

#### **About this marking scheme**

This marking scheme has been prepared for the CIMA 2019 professional qualification Strategic Case Study [May-August 2020].

The indicative answers will show the expected or most orthodox approach; however the nature of the case study examination tasks means that a range of responses will be valid. The descriptors within this level-based marking scheme are holistic and can accommodate a range of acceptable responses.

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Care must be taken not to make too many assumptions about future marking schemes on the basis of this document. While the guiding principles remain constant, details may change depending on the content of a particular case study examination form.

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- All marks on the scheme are designed to be awarded and full marks should be awarded when all level descriptor criteria are met.
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- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.  
Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

### How to use this levels-based marking scheme

#### **1. Read the candidate's response in full**

#### **2. Select the level**

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

#### **3. Select a mark within the level**

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	B	Evaluate business ecosystem and business environment.	60%
(b)	C	Recommend financing strategies.	40%
Section 2			
(a)	C	Recommend financing strategies.	40%
(b)	A	Develop business strategy.	60%
Section 3			
(a)	D	Evaluate and mitigate risk.	50%
(b)	E	Recommend and maintain a sound control environment.	50%

<b>SECTION 1</b>			
<b>Task (a)</b> Explain why Runnabout's Board should manage the lifespan of the hoverboards as a critical success factor and explain how it should do so.			
<b>Trait</b>			
Costs	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies cost management as an issue	<b>1</b>
	<b>Level 2</b>	Discusses cost management as a CSF	<b>2-3</b>
	<b>Level 3</b>	Offers a clear and comprehensive discussion of cost management as a CSF	<b>4-5</b>
Lifespan	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies lifespan of hoverboards as a key issue and/or makes a brief statement as to management	<b>1-2</b>
	<b>Level 2</b>	Explains factors that might have an impact on lifespan and explains a logical response	<b>3-4</b>
	<b>Level 3</b>	Explains factors that might have an impact on lifespan and explains a logical response, both well justified	<b>5-6</b>
Behaviour	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies customer behaviour as an issue	<b>1</b>
	<b>Level 2</b>	Explains how customers might behave with respect to concerns about hoverboards and/or suggests a solution	<b>2-3</b>
	<b>Level 3</b>	Explains how customers might behave with respect to concerns about hoverboards and/or suggests a solution, well justified	<b>4-5</b>
Availability	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies availability of replacement hoverboards as an issue	<b>1</b>
	<b>Level 2</b>	Discusses availability of replacement hoverboards as a CSF	<b>2-3</b>
	<b>Level 3</b>	Offers a clear and comprehensive discussion of availability of replacement hoverboards as a CSF	<b>4-5</b>



**Task (b) Assess** the impact, if any, that these declining useful lives will have on our share price, stating reasons. Remember that we do not intend to make any form of public announcement about this matter.

<b>Trait</b>			
Cash flows	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies cash flows as an issue	<b>1-2</b>
	<b>Level 2</b>	Discusses share price and cash flows	<b>3-4</b>
	<b>Level 3</b>	Offers a clear and comprehensive discussion of share price and cash flows	<b>5-6</b>
Inferences	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies capital market inferences as an issue	<b>1-2</b>
	<b>Level 2</b>	Discusses share price and capital market inferences	<b>3-4</b>
	<b>Level 3</b>	Offers a clear and comprehensive discussion of capital market inferences and share price	<b>5-6</b>

## SECTION 2

**Task (a) Identify** the challenges associated with evaluating the currency risks associated with continuing to trade with Minnerring and explain their significance.

Trait			
Payments	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the payment pattern as an issue	<b>1</b>
	<b>Level 2</b>	Discusses the implications of the pattern of payments	<b>2-3</b>
	<b>Level 3</b>	Offers a full discussion of the implications of the pattern of payments	<b>4</b>
Economics	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies implications of the economic information provided	<b>1-2</b>
	<b>Level 2</b>	Discusses implications of the economic information provided	<b>3-5</b>
	<b>Level 3</b>	Offers a full discussion of the implications of the economic information provided	<b>6-8</b>

**Task (b)** Ignoring the currency risks, **assess** the strategic implications of relying exclusively on Minnerring for replacement hoverboards.

Trait			
Familiarity	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identified familiarity with a single model as an issue	<b>1</b>
	<b>Level 2</b>	Discusses benefits of familiarity with a single model	<b>2-3</b>
	<b>Level 3</b>	Offers a full and clear discussion of the benefits of familiarity with a single model	<b>4-5</b>
Strong position	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the benefits associated with using a single supplier	<b>1-2</b>
	<b>Level 2</b>	Discusses the benefits of using a single supplier	<b>3-4</b>
	<b>Level 3</b>	Offers a full and clear discussion of the benefits of using a single supplier	<b>5-6</b>

Abuse	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the possibility that Minnerring will overcharge	<b>1</b>
	<b>Level 2</b>	Discusses the possibility that Minnerring will overcharge	<b>2-3</b>
	<b>Level 3</b>	Offers a full and clear discussion of the possibility that Minnerring will overcharge	<b>4-5</b>
Dependence	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies the non-price drawbacks associated with using a single supplier	<b>1</b>
	<b>Level 2</b>	Discusses the non-price drawbacks of using a single supplier	<b>2-3</b>
	<b>Level 3</b>	Offers a full and clear discussion of the non-price drawbacks of using a single supplier	<b>4-5</b>

SECTION 3			
Task (a) Firstly, <b>assess</b> , stating reasons, whether the modifications of our hoverboards in Western City are unethical.			
<b>Trait</b>			
Principles	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describe ethical principles	<b>1-3</b>
	<b>Level 2</b>	Identifies relevant ethical principles and links them to scenario	<b>4-6</b>
	<b>Level 3</b>	Identifies full set of relevant ethical principles and links them to scenario	<b>7-9</b>
Application	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Offers some justification for arguments	<b>1-2</b>
	<b>Level 2</b>	Offers clear justification for arguments	<b>3-5</b>
	<b>Level 3</b>	Offers clear and comprehensive justification for arguments	<b>6-8</b>
Task (b) Secondly, <b>recommend</b> , with reasons, whether the risk committee should evaluate the results of this trial before deciding on whether the modifications should be applied to all of Runnabout's hoverboards.			
<b>Trait</b>			
For	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies arguments for evaluating	<b>1-3</b>
	<b>Level 2</b>	Discusses the arguments for evaluating	<b>4-6</b>
	<b>Level 3</b>	Offers a full and clear discussion of the arguments for evaluating	<b>7-9</b>
Against	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies arguments against evaluating	<b>1-2</b>
	<b>Level 2</b>	Discusses the arguments against evaluating	<b>3-5</b>
	<b>Level 3</b>	Offers a full and clear discussion of the arguments against evaluating	<b>6-8</b>



**Strategic Level Case Study May-August 2020**  
**Marking Guidance**  
**Variant 4**

**About this marking scheme**

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- An answer which does not address the requirements of the task must be awarded no marks.
- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.



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### **How to use this levels-based marking scheme**

#### **1. Read the candidate's response in full**

#### **2. Select the level**

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- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

#### **3. Select a mark within the level**

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.



### Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	A	Develop business strategy	60%
(b)	B	Evaluate business ecosystem and business environment.	40%
Section 2			
(a)	C	Recommend financing strategies.	50%
(b)	E	Recommend and maintain a sound control environment.	50%
Section 3			
(a)	D	Evaluate and mitigate risk.	60%
(b)	B	Evaluate business ecosystem and business environment.	40%

SECTION 1			
<b>Task (a) Explain</b> the actions that Runnabout could take in response to the data breach and also explain any strategic implications the actions might have.			
Trait			
Identify	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies some strategic options	1-4
	Level 2	Explains main strategic options	5-8
	Level 3	Offers a clear and comprehensive explanation of main strategic options	9-12
Implications	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies implications	1-3
	Level 2	Identifies implications, stating justification	4-6
	Level 3	Offers a clear and well justified statement of implications	7-9
<b>Task (b) Recommend</b> with reasons the objectives that Runnabout's Board should set for Lim Sheng Yang, Runnabout's Head of IT Security, for the first 24 hours following the discovery of the breach.			
Trait			
Objectives	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible objectives	1-2
	Level 2	Discusses relevant objectives	3-4
	Level 3	Discusses a full range of relevant objectives	5-6
Justification	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies criteria for selection	1-2
	Level 2	Justifies objectives	3-4
	Level 3	Offers a clear and full justification for objectives	5-6

SECTION 2			
<b>Task (a) Assess</b> the long-term impact that this data breach will have on Runnabout's share price.			
<b>Trait</b>			
<b>Information</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies understanding of future cash flows as an issue	<b>1-3</b>
	Level 2	Discusses the impact of the data breach on future perceptions of cash flows	<b>4-6</b>
	Level 3	Offers a clear and comprehensive discussion of the impact of data breach on future perceptions of cash flows	<b>7-9</b>
<b>Uncertainty</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies understanding of risk as an issue	<b>1-2</b>
	Level 2	Discusses the impact of the data breach on future perceptions of risk	<b>3-5</b>
	Level 3	Offers a clear and comprehensive discussion of the impact of data breach on future perceptions of risk	<b>6-8</b>
<b>Task (b) Evaluate</b> the possible criticism that the data breach arose because of poor governance by the Board.			
<b>Trait</b>			
<b>Responsibility</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Explains the need to accept responsibility	<b>1-3</b>
	Level 2	Discusses the Board's responsibilities	<b>4-6</b>
	Level 3	Offers a clear and comprehensive discussion of the Board's responsibilities	<b>7-9</b>
<b>Perceptions</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the link between perceptions and reality	<b>1-2</b>
	Level 2	Discusses the link between perceptions and reality	<b>3-5</b>
	Level 3	Offers a clear and comprehensive discussion of the link between perceptions and reality	<b>6-8</b>



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<b>SECTION 3</b>			
<b>Task (a) Evaluate</b> the claim by Diamond Chip that it can prevent any further unauthorised access to Runnabout's system.			
<b>Trait</b>			
<b>Consultant</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the consultant's interest	<b>1-3</b>
	Level 2	Discusses the consultant's interest in making such a claim	<b>4-6</b>
	Level 3	Offers a clear and full discussion of the consultant's interest in making such a claim	<b>7-9</b>
<b>Emerging</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the residual vulnerabilities and emerging threats	<b>1-4</b>
	Level 2	Discusses the residual vulnerabilities and emerging threats	<b>5-8</b>
	Level 3	Offers a clear and comprehensive discussion of the residual vulnerabilities and emerging threats	<b>9-12</b>
<b>Task (b) Identify</b> the currency risks that we will face as a result of this agreement and provide your recommendation concerning the management of those risks.			
<b>Trait</b>			
<b>Risks</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the payment pattern as an issue	<b>1-2</b>
	Level 2	Discusses the implications of the pattern of payments	<b>3-5</b>
	Level 3	Offers a full discussion of the implications of the pattern of payments	<b>6-8</b>
<b>Recommendation</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies a response	<b>1</b>
	Level 2	Identifies a relevant response	<b>2-3</b>
	Level 3	Identifies and justifies a relevant response	<b>4</b>



**Strategic Level Case Study May-August 2020**  
**Marking Guidance**  
**Variant 5**

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- An answer which does not address the requirements of the task must be awarded no marks.



- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.  
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### How to use this levels-based marking scheme

#### **1. Read the candidate's response in full**

#### **2. Select the level**

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

#### **3. Select a mark within the level**

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.



Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	A	Develop business strategy.	60%
(b)	B	Evaluate business ecosystem and business environment.	40%
Section 2			
(a)	B	Evaluate business ecosystem and business environment.	40%
(b)	C	Recommend financing strategies.	60%
Section 3			
(a)	D	Evaluate and mitigate risk.	50%
(b)	E	Recommend and maintain a sound control environment.	50%



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SECTION 1			
<b>Task (a) Identify</b> and assess the strategic implications for Runnabout of transferring our IT system from in-house to a cloud services provider.			
<b>Trait</b>			
<b>Flexibility</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies flexibility as an issue	<b>1-2</b>
	Level 2	Assesses flexibility associated with the cloud	<b>3-5</b>
	Level 3	Offers a clear and comprehensive assessment of flexibility associated with the cloud	<b>6-7</b>
<b>Cost</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies cost as an issue	<b>1-2</b>
	Level 2	Assesses cost associated with the cloud	<b>3-5</b>
	Level 3	Offers a clear and comprehensive assessment of cost associated with the cloud	<b>6-7</b>
<b>Control</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies control as an issue	<b>1-2</b>
	Level 2	Assesses control associated with the cloud	<b>3-5</b>
	Level 3	Offers a clear and comprehensive assessment of control associated with the cloud	<b>6-7</b>



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**Task (b) Identify** and assess the currency risks that would arise specifically from the use of a cloud services provider that is invoiced in a foreign currency. Please also suggest how the currency risks could be mitigated.

Trait			
Risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies currency risks	1-2
	Level 2	Assesses currency risks	3-4
	Level 3	Offers a clear and comprehensive assessment of currency risks	5-6
Response	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Makes relevant suggestions	1-2
	Level 2	Makes and justifies relevant recommendations	3-4
	Level 3	Offers clear and well-supported recommendations	5-6

SECTION 2			
<b>Task (a) Evaluate</b> the role that the city councils might play as stakeholders in our decision to move to the cloud.			
<b>Trait</b>			
<b>Limited</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the limited nature of the councils' interest	<b>1</b>
	Level 2	Evaluates the limited nature of the councils' interest	<b>2</b>
	Level 3	Offers a clear and well-supported evaluation of the limited nature of the councils' interest	<b>3</b>
<b>Factors</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the factors that might increase the councils' interest	<b>1-3</b>
	Level 2	Evaluates the factors that might increase the councils' interest	<b>4-6</b>
	Level 3	Offers a clear and well-supported evaluation of the factors that might increase the councils' interest	<b>7-9</b>
<b>Task (b) Evaluate</b> the implications of making such a dividend payment, bearing in mind that we would expect future dividends to revert to normal levels.			
<b>Trait</b>			
<b>Cash</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the impact on cash as an issue	<b>1-2</b>
	Level 2	Evaluates the impact of such a dividend on cash	<b>3-5</b>
	Level 3	Offers a clear and well-supported evaluation of the impact of such a dividend on cash	<b>6-7</b>
<b>Perceptions</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the impact on shareholder perceptions as an issue	<b>1-2</b>
	Level 2	Evaluates the impact of such a dividend on shareholder perceptions	<b>3-5</b>
	Level 3	Offers a clear and well-supported evaluation of the impact of such a dividend on shareholder perceptions	<b>6-7</b>



Tax	Level	Descriptor	
		No rewardable material	<b>0</b>
	Level 1	Identifies the impact on shareholders' tax position as an issue	<b>1-2</b>
	Level 2	Evaluates the impact of such a dividend on shareholders' tax position	<b>3-5</b>
	Level 3	Offers a clear and well-supported evaluation of the impact of such a dividend on shareholders' tax positions	<b>6-7</b>

SECTION 3			
<b>Task (a) Recommend</b> the disclosures that we should make in Runnabout's annual report on principal risks with respect to our switch to Cloudharr.			
<b>Trait</b>			
<b>Description</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Describes relevant gross risks that should be disclosed	<b>1-3</b>
	Level 2	Recommends relevant gross risks that should be disclosed	<b>4-6</b>
	Level 3	Offers clear and well-supported recommendations for the gross risks that should be disclosed	<b>7-9</b>
<b>Mitigation</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the need to disclose mitigation	<b>1-2</b>
	Level 2	Recommends relevant mitigation for the risks	<b>3-5</b>
	Level 3	Offers a clear and well-supported recommendation for the mitigation of the risks	<b>6-8</b>
<b>Task (b) Evaluate</b> the argument that Runnabout's Board should be held accountable for the security of data held by Cloudharr.			
<b>Trait</b>			
<b>Responsibility</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies issues relating to the Board's accountability	<b>1-3</b>
	Level 2	Offers clear recommendation for the extent of the Board's accountability	<b>4-6</b>
	Level 3	Offers clear and well-supported recommendation for the extent of the Board's accountability	<b>7-9</b>





Fairness	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues related to fairness of accountability	1-2
	Level 2	Offers clear justification for the fairness of holding the Board accountable	3-5
	Level 3	Offers clear and well-supported justification for the fairness of holding the Board accountable	6-8



**Strategic Level Case Study May-August 2020**  
**Marking Guidance**  
**Variant 6**

**About this marking scheme**

This marking scheme has been prepared for the CIMA 2019 professional qualification Strategic Case Study [May-August 2020].

The indicative answers will show the expected or most orthodox approach; however the nature of the case study examination tasks means that a range of responses will be valid. The descriptors within this level-based marking scheme are holistic and can accommodate a range of acceptable responses.

General marking guidance is given below, markers are subject to extensive training and standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken not to make too many assumptions about future marking schemes on the basis of this document. While the guiding principles remain constant, details may change depending on the content of a particular case study examination form.

**General marking guidance**

- Marking schemes should be applied positively, with candidates rewarded for what they have demonstrated and not penalised for omissions.
- All marks on the scheme are designed to be awarded and full marks should be awarded when all level descriptor criteria are met.
- The marking scheme and indicative answers are provided as a guide to markers. They are not intended to be exhaustive and other valid approaches must be rewarded. Equally, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks.



- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.  
Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

### How to use this levels-based marking scheme

#### **1. Read the candidate's response in full**

#### **2. Select the level**

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Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	A	Develop business strategy.	60%
(b)	D	Recommend and maintain a sound control environment.	40%
Section 2			
(a)	B	Evaluate business ecosystem and business environment.	60%
(b)	D	Recommend and maintain a sound control environment.	40%
Section 3			
(a)	C	Recommend financing strategies.	50%
(b)	E	Recommend and maintain a sound control environment.	50%

SECTION 1			
<b>Task (a) Identify</b> the main challenges associated with evaluating the suitability of this proposal as a strategic business opportunity for Runnabout and recommend how we might overcome those challenges.			
<b>Trait</b>			
<b>Identification</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies challenges	<b>1-2</b>
	Level 2	Offers a relevant listing of challenges	<b>3-5</b>
	Level 3	Offers a full and relevant listing of challenges	<b>6-7</b>
<b>Recommendation</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Describes responses to challenges	<b>1-2</b>
	Level 2	Offers relevant recommendations for addressing challenges	<b>3-5</b>
	Level 3	Offers full and logical recommendations for addressing challenges	<b>6-7</b>
<b>Justification</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Attempts to justify recommendations	<b>1-2</b>
	Level 2	Offers logical justification for arguments concerning challenges and responses	<b>3-5</b>
	Level 3	Offers full and logical justification for arguments concerning challenges and responses	<b>6-7</b>
<b>Task (b) Identify and evaluate</b> the business risks that Runnabout will face in operating a shared-hoverboard service in Coastland and recommend how they might be managed.			
<b>Trait</b>			
<b>Risks</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies risks	<b>1-2</b>
	Level 2	Offers relevant discussion of risks	<b>3-4</b>
	Level 3	Offers full and relevant discussion of risks	<b>5-6</b>



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Evaluation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes impact of risks	1-2
	Level 2	Offers relevant evaluation of risks	3-4
	Level 3	Offers full and relevant evaluation of risks	5-6



SECTION 2			
<b>Task (a) Identify</b> , with reasons, the main stakeholders that we need to engage with and recommend the approach that we should take to dealing with them.			
<b>Trait</b>			
<b>Identify</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies stakeholders	<b>1-2</b>
	Level 2	Offers relevant discussion of stakeholders	<b>3-5</b>
	Level 3	Offers full and relevant discussion of stakeholders	<b>6-7</b>
<b>Engage</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies need to engage with stakeholders	<b>1-2</b>
	Level 2	Recommends approach to stakeholder engagement	<b>3-5</b>
	Level 3	Offers clear and logical recommendation of approach to stakeholder engagement	<b>6-7</b>
<b>Justify</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies stakeholder interests	<b>1-2</b>
	Level 2	Offers relevant discussion of stakeholder interests	<b>3-5</b>
	Level 3	Offers full and relevant discussion of stakeholder interests	<b>6-7</b>
<b>Task (b) Evaluate</b> the ethical implications of Runnabout's attempts to change Coastland law relating to the use of hoverboards.			
<b>Trait</b>			
<b>Principles</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Describe ethical principles	<b>1-2</b>
	Level 2	Identifies relevant ethical principles and links them to scenario	<b>3-4</b>
	Level 3	Identifies full set of relevant ethical principles and links them to scenario	<b>5-6</b>



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Application	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some justification for arguments	1-2
	Level 2	Offers clear justification for arguments	3-4
	Level 3	Offers clear and comprehensive justification for arguments	5-6



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SECTION 3			
<b>Task (a) Explain</b> whether an analysts' briefing could affect Runnabout's share price despite the non-disclosure agreements signed by the analysts.			
<b>Trait</b>			
<b>Efficiency</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies capital market efficiency	<b>1</b>
	Level 2	Discusses role of capital market efficiency	<b>2-3</b>
	Level 3	Offers a clear and relevant discussion of role of capital market efficiency	<b>4-5</b>
<b>Duties</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies analysts' duties	<b>1-2</b>
	Level 2	Discusses analysts' duties with regard to briefing	<b>3-4</b>
	Level 3	Offers a clear and relevant discussion of analysts' duties with regard to briefing	<b>5-6</b>
<b>Information</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies role of prior knowledge	<b>1-2</b>
	Level 2	Discusses the possibility that the information released during the briefing may already be known to the market	<b>3-4</b>
	Level 3	Offers a clear and relevant discussion of the extent to which the information released during the briefing may already be known to the market	<b>5-6</b>
<b>Task (b) Advise</b> the Board on whether it is acceptable for the Non-Executive Chairman to refuse the Board the opportunity to vote on a proposal.			
<b>Trait</b>			
<b>Voting</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	Level 1	Identifies the need for Board members to debate and have the opportunity to vote	<b>1-2</b>

	Level 2	Discusses the need for Board members to debate and have the opportunity to vote	3-4
	Level 3	Offers a clear and relevant discussion of the need for Board members to debate and have the opportunity to vote	5-6
<b>Authority</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	Level 1	Describes the authority held by the Non-Executive Chairman	1-2
	Level 2	Discusses the authority held by the Non-Executive Chairman	3-4
	Level 3	Offers a clear and relevant discussion of the authority held by the Non-Executive Chairman	5-6
<b>Unity</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	Level 1	Identifies the need for Board unity	1
	Level 2	Discusses the need for Board unity	2-3
	Level 3	Offers a clear and relevant discussion of the need for Board unity	4-5