

May and August 2023
Strategic Case Study
2019 CGMA Professional Qualification
Full post exam support materials

Below are the full post-exam supporting materials for the Strategic Case Study Exam. Use the links on this page to jump to the documents required.

Pre-seen material

May and August Strategic Case Study [pre-seen](#).

Examiner's report

The May and November 2023 [examiner's report](#).

Exam variants

- [Variant 1](#)
- [Variant 2](#)
- [Variant 3](#)
- [Variant 4](#)
- [Variant 5](#)
- [Variant 6](#)

Suggested solutions

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

Marking Guidance

- [Marking guidance for variant 1](#)
- [Marking guidance for variant 2](#)
- [Marking guidance for variant 3](#)
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- [Marking guidance for variant 5](#)
- [Marking guidance for variant 6](#)

If you need any further information please [contact us](#).

Strategic Case Study Examination

May - August 2023

Pre-seen material



Context Statement

We are aware that there has been, and remains, a significant amount of change globally. To assist with clarity and fairness, we do not expect students to factor these changes in when responding to, or preparing for, case studies. This pre-seen, and its associated exams (while aiming to reflect real life), are set in a context where current and on-going global issues have not had an impact.

Remember, marks in the exam will be awarded for valid arguments that are relevant to the question asked. Answers that make relevant references to current affairs will, of course, be marked on their merits.

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Introduction

Daistruk is a quoted company that offers a logistics service.

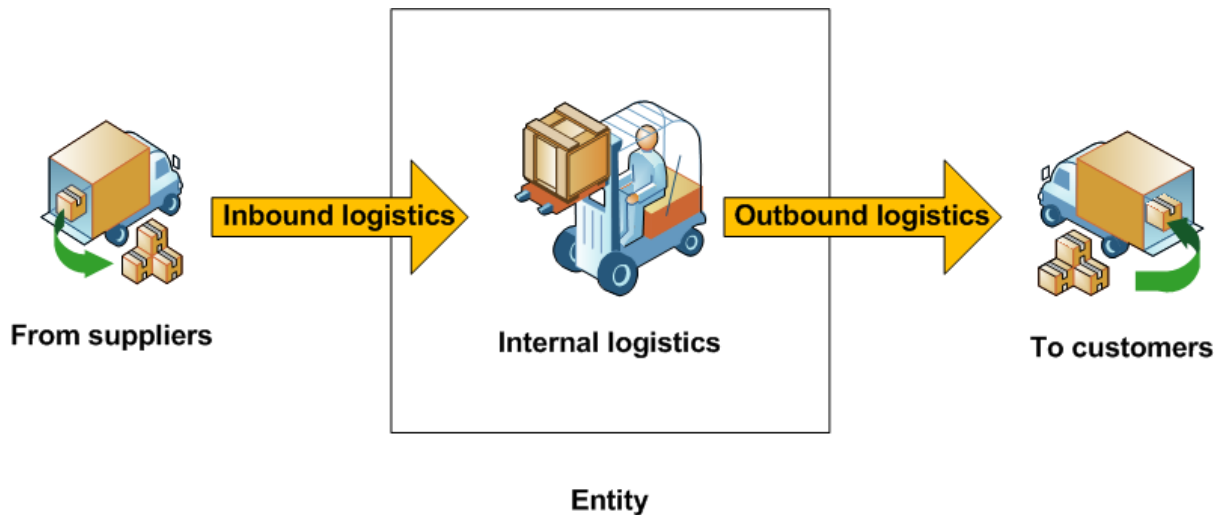
You are a senior manager in Daistruk’s finance function. You report directly to the Board and advise on special projects and strategic matters.

Daistruk is based in Roundland, a developed country that has an active and well-regulated stock exchange. Roundland’s currency is the R\$. Roundland requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

Logistics

Logistics is a broad term that encompasses the process of managing the flow of goods, ensuring that they reach their intended destination on time. Logistics includes the planning, implementation and control required to ensure the safe and efficient management of that flow as well as the physical transportation of materials and products.

Most logistics systems involve the following:



Inbound logistics focus on the procurement of goods:

- receiving and checking goods (which may take the form of parts, materials and/or finished products)
- storing goods (if necessary)
- updating inventory records

Internal logistics involves handling goods within the entity, excluding inbound and outbound logistics:

- managing goods
- maintaining inventory records

Outbound logistics involves processes associated with the movement of goods to customers:

- warehouse picking
- packing
- despatch
- recording

Outbound logistics also includes reverse logistics whereby goods move from customer to the entity. That may be due to the return of defective goods or the recycling of products or packaging.

Each stage in the flow of goods depends upon the maintenance and communication of accurate information. Logistics requires the effective communication of information both within the entity and between the entity and its suppliers and customers.

The scale and complexity of logistics varies between entities, depending on their size and the nature of their business. For example, a manufacturer such as Maltor Motors has very different needs from a retailer such as Muddocks Supermarkets:

Malttor Motors



Malttor Motors is a global manufacturing company that has 52 factories spread across 31 countries.

Each factory mass produces a specific product that may then be shipped to other factories as required. For example, all of Malttor's petrol engines are manufactured at a factory in Eastland.

- The engine factory's inbound logistics focus on the procurement of engine parts and materials.
- Internal logistics manages the inventory of parts and materials, supplying the factory when required.
- Outbound logistics stores completed engines, shipping them to the Malttor factories that assemble cars.

Each of Malttor's factories has its own logistics system, interacting with third parties and with other factories in the Group as appropriate.

Malttor's logistics are complicated by the need to ship often heavy and expensive components and assemblies between factories. Malttor's cars must then be shipped to dealers in the many countries where Malttor's cars are sold.

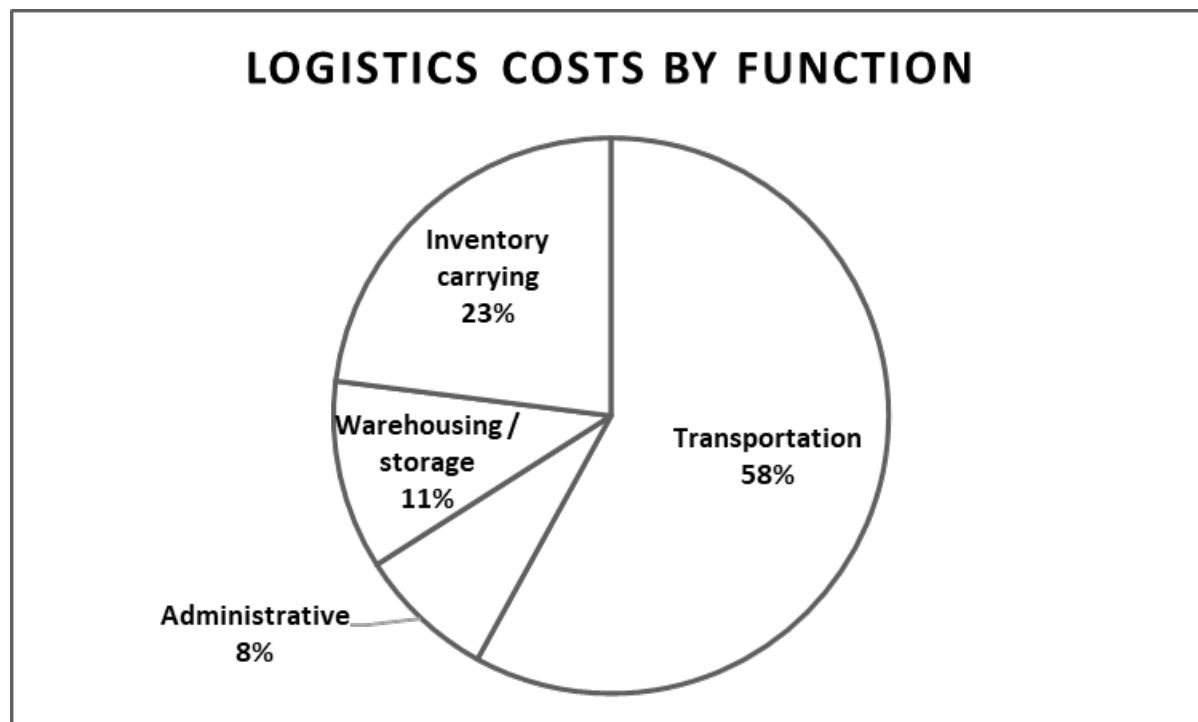
Muddocks Supermarkets



Muddocks Supermarkets is one of the largest supermarket companies in Roundland. It has 1,270 stores and 37 warehouses in the country.

- Inbound logistics focusses on deliveries by food manufacturers to Muddocks's warehouses, each of which covers a geographical region. Perishable goods such as milk are delivered directly to shops by suppliers.
- Internal logistics manages inventory at the warehouses and shops. Muddocks uses lorries to replenish shops with goods from its warehouses.
- Most sales are direct to customers who collect their own goods. Some sales are made through the Muddocks website, and so there is an outbound logistics function that handles deliveries to customers' homes.

Businesses spend a vast amount on logistics. The total cost incurred by Roundlandian businesses for the year ended 31 December 2022 has been estimated at R\$226.2 billion. That total can be broken down as follows:



Inhouse or outsourced

Logistics can be managed in-house or outsourced to a contractor. Very few large organisations manage their own logistics because it is more efficient to outsource to a specialist. It is possible to outsource some or all elements of logistics:

1PL	A first-party logistics provider is a business that manages its own logistics.
2PL	A second-party logistics provider handles the transportation element of the flow of goods, acting on the instructions of a client. The client retains responsibility for managing its logistics.
3PL	A third-party logistics provider provides a wide range of services associated with logistics, from warehousing goods to their delivery.
4PL	A fourth-party logistics provider extends the 3PL model by taking responsibility for the strategy underlying logistics. Some 4PL providers employ external 3PL companies to provide transportation and warehousing.

Most large businesses use some variation of the 3PL arrangement, which potentially offers a number of advantages:

- 3PL providers offer expertise that can improve the reliability of logistics while reducing costs.
- 3PL providers may use their own warehouses and vehicles, in which case clients need not invest in property, plant and equipment.
- 3PL providers can offer flexibility in the event of changing needs. Clients may be able to add or release capacity in response to changing demand.

- 3PL providers can resolve problems affecting the flow of goods without the need to distract clients' management teams.
- 3PL providers can take responsibility for managing legal requirements such as licences and safety requirements.

Those advantages may not always be realised in practice. For example, there can be seasonal variations in demands for storage space, and so 3PL providers may not always be able to offer flexibility at busy times of year.

Shared vs dedicated 3PL

Some clients negotiate exclusive arrangements for the use of a 3PL's resources. These "dedicated" arrangements grant exclusive use of specific assets belonging to the 3PL provider. That could mean that a number of vehicles will be painted in the client's colours and will be used on that client's business, or a warehouse could be set aside for the client's exclusive use.

Shared arrangements do not guarantee the exclusive use of assets. The 3PL provider is free to, for example, use a vehicle to carry several part loads for different clients in one trip, or to carry a load for one client on the outward journey between two locations and another load for a different client on the return journey. A warehouse could also have areas set aside for different clients within the same building.

Dedicated arrangements may be more cost-effective than shared for companies that have high volumes of goods to transport in accordance with a regular schedule so that vehicles can be kept full. They may also be beneficial for clients who have specialised needs such as goods that require specialised storage or transportation arrangements.

Storage



Logistics management usually requires warehousing or other forms of storage that permit goods to be stored safely until they are required at the next stage of their journey. The number, size and location of storage facilities must be decided.

Storage sites must be large enough to provide sufficient capacity. They must also be accessible to whatever mode of transport will make deliveries or collections, whether that be road, rail, sea or air. Locations can also

affect transportation costs due to distances between nodes.



Storage facilities must be configured and equipped to handle the goods that will flow through them. For example, goods are often carried on wooden pallets so that they can be lifted by forklift trucks. That usually requires warehouses to have loading docks that enable forklifts to drive into cargo trailers when loading or unloading. The main storage space in the warehouse will then have to permit free and safe movement of forklifts so that pallets can be placed in storage or picked for despatch.

Different types of racks can be installed to make the best possible use of available space, taking account of the weight of a typical pallet (for instance, pallets of electronic goods will generally be lighter than pallets of tinned foods).



Warehouses can be automated, reducing the need for staff by using conveyor belts to move goods. It is also possible to use robots to pick and carry goods, placing them in their assigned storage location or preparing them for despatch.

This type of automation is frequently associated with the fulfilment of online sales. Despatches might comprise a single item or a small number of different products, picked from a large warehouse that stores many different products.

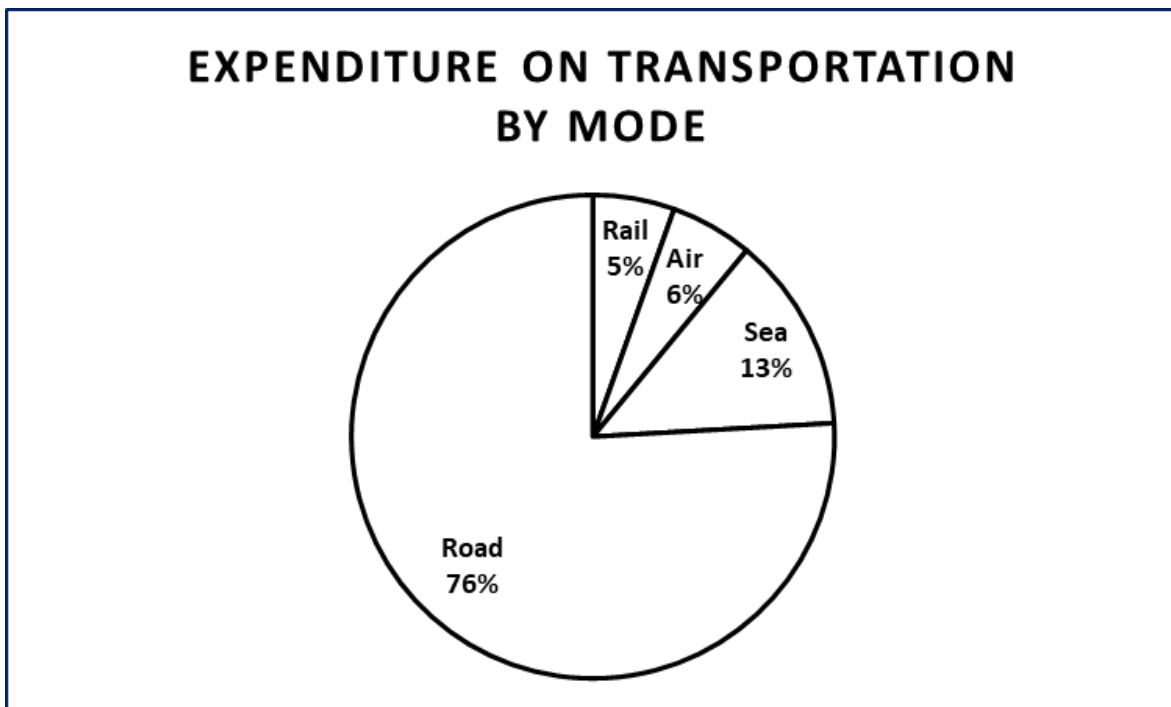


Many products require specialised facilities for handling and storage. For example, liquids require tankers and storage tanks. Grain and other crops require their own equipment for collection and storage.




Different types of goods can also raise safety concerns if they are flammable or toxic and must be handled with care. Or there may be hygiene issues with goods that are intended for human consumption, either as food products or ingredients.

Road transport

Road vehicles account for most of the expenditure on transportation for logistical purposes:

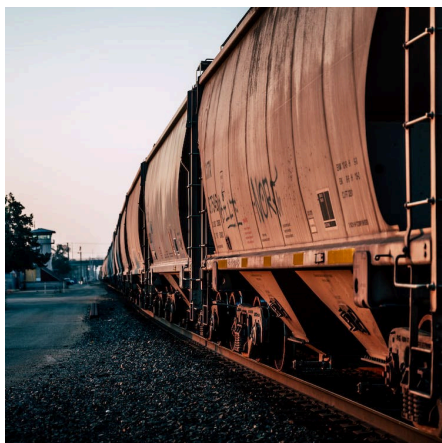


Road transport takes a variety of different forms:

<p>Cars and vans</p> 	<p>Cars and vans can be an efficient means of carrying small loads, particularly when making multiple deliveries over the “last mile” for an online retailer.</p> <p>Drivers do not need to have special licences, and so recruitment and retention are simplified for employers.</p> <p>Some larger vans can accommodate a pallet and can be loaded and unloaded by forklift.</p>
<p>Rigid trucks</p> 	<p>Rigid trucks consist of a chassis with a cab for the driver and a load compartment.</p> <p>Manufacturers usually supply these vehicles without a load compartment. Third-party suppliers can then add a load space that best meets the buyer’s needs. For example, the load compartment could have flexible “curtain” sides that can be opened to make it easier to load and unload with a forklift or the load compartment might be refrigerated.</p> <p>Rigid trucks are available in a variety of sizes. Roundlandian law permits trucks of up to 7.5 tonnes to be driven by holders of standard driving licences. Larger trucks require a heavy goods vehicle licence.</p> <p>18-tonne trucks are a popular size because they are well suited to carrying pallets of goods.</p>
<p>Articulated trucks</p> 	<p>Articulated trucks consist of a tractor unit and a trailer. The tractor unit has the driver’s cab, the engine and the fuel tanks. The trailer carries the load.</p> <p>Tractors and trailers are designed to be interchangeable, to the extent that a trailer can be left at a destination for loading and the tractor can be hitched to another trailer for the return journey.</p> <p>Trailers come in a variety of different configurations, allowing buyers to specify the manner in which they will be loaded and unloaded as well as the ability to specify trailers that are suited to different types of cargo.</p> <p>Drivers must have heavy goods vehicle licences before they can drive an articulated truck, even if it is a bare tractor unit without a trailer.</p>

	Some tractor units come equipped with a sleeping compartment, which enables the driver to park overnight and sleep in the cab.
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Rail



Rail transport offers a number of advantages over road:

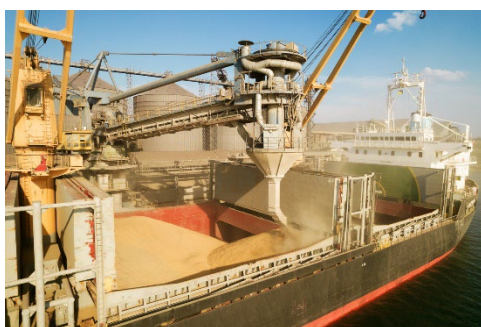
- Rail transport is generally more sustainable than road transport with lower emissions per tonne/kilometre.
- Using rail reduces congestion on the roads. It is estimated that each trainload of goods replaces 75 articulated truckloads on the roads.
- Rail can be more reliable in terms of on-time delivery, which can be beneficial when scheduling the movement of goods for immediate use.
- Rail transportation is often much cheaper, particularly for the carriage of materials in bulk.

Rail can be used to carry a range of products. Wagons come in a variety of different configurations, including open wagons for raw materials such as iron ore, tankers for liquids and wagons adapted for special loads, such as cars and vans.

The usefulness of rail depends largely on the location of facilities that are convenient for loading and unloading at either end of a load's journey.

Roundland has an extensive network of railway lines that are used for passengers and freight. All of the country's seaports have rail connections to their freight docks, and so it is possible to offload ships directly onto trains. The railway lines are used by several rail operators, enabling logistics companies to offer both rail freight and road for the transportation of goods.

Sea



It may be necessary to use sea freight simply because there are no alternatives when goods are to be transported to or from a distant location. For example, Roundland imports large quantities of grain from Northland which is on the far side of the Western Ocean. That grain is transported to ports in Roundland on bulk carriers. The grain is then transported by road or rail to factories where it is used to make bread and other products.

Bulk carriers have open holds that can carry large quantities of goods such as grain, ore or coal. Each type of load requires specialised equipment to allow it to be loaded and unloaded quickly and efficiently. Bulk goods are often loaded into open-topped railway wagons at the dockside.

Liquids such as oil are carried on tanker ships. Liquids can be pumped from tankers into storage tanks by the dockside. Those liquids can then be pumped to smaller ships or into tankers towed by trucks or railway locomotives for onward transportation.



Container ships carry goods in shipping containers, which allow for rapid loading and unloading. Many ports have container terminals that are equipped with cranes designed to lift containers. Once unloaded, containers can be stacked ready to reload onto another ship. Containers can also be loaded onto trucks or trains. Containers are standard sizes, which makes them easy to manage.

Shipping containers can also be brought to ports on railway wagons and trucks, making them a flexible means of transporting goods for export.

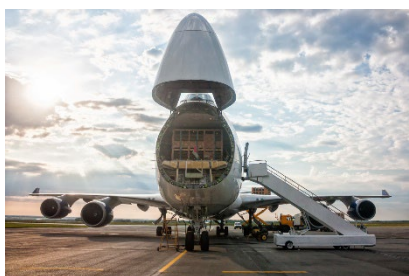
Articulated trucks can be carried on car ferries, which can allow for flexibility in making sea crossings that are served by ferry routes. There are six major ferry ports on Roundland's south and east coasts, and all are used by trucks to carry freight between Roundland and foreign destinations. Roundland is a large island that has no road or rail links to other countries.

Most 3PL logistics providers can manage the documentation associated with imports and exports by sea, in addition to making the necessary arrangements to charter ships or to organise the carriage of shipping containers by sea.

Air

Freight can be carried by air, either on dedicated cargo aircraft or in the holds of passenger aircraft, alongside luggage.

Airfreight is generally suited to high-value goods that are small enough to be carried economically. It may also be necessary to consider airfreight for the transportation of goods that are either urgent or that are perishable. For example, fresh fruit and vegetables account for 10% of the weight of airfreight arriving in Roundland. Some varieties must be imported from countries with warmer climates and must be flown rather than shipped because they are unsuitable for freezing and would not remain edible for the duration of a sea voyage.



Cargo aircraft are configured to carry only freight. They can accommodate large items that are required urgently and so cannot be transported by overland or by ship, or large volumes of pallets, such as high value electronics that must be transported quickly and securely.

It is possible to charter a cargo aircraft for a single urgent load or for regular deliveries of an item that requires the speed or security of airfreight.

It is also possible to book consignments of freight onto the cargo aircraft operated by the major courier companies. Those companies have regular flights between major transport hubs in most industrialised countries.



Most airfreight is carried in the holds of passenger aircraft. Airlines do not require all their hold space for passenger luggage and can generate significant additional revenue by carrying cargo. Goods must fit onto the standard pallets used for airfreight and clear the door to the aircraft hold.

destination.

All large airports are equipped to handle freight. It is possible to transfer freight between aircraft on connecting flights when there is no direct flight between a load's origin and its final

destination. It can be complicated to manage airfreight. Many 3PL providers work with third-party specialists to deal with clients' needs.

Intermodal

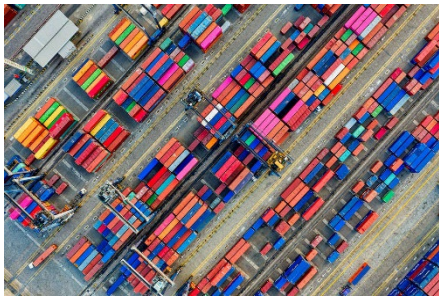
Intermodal transport involves the use of two or more modes in a single journey. For example, a shipping container might arrive at a Roundlandian port by sea, be offloaded onto a railway wagon that carries it to a terminal at which it is loaded onto an articulated truck for delivery to its final destination.



Intermodal transport frequently involves freight that is being carried in shipping containers. These can be stacked on the decks of container ships or loaded onto wagons on freight trains or trailers on articulated trucks. The containers can also be stacked on land for storage purposes, enabling goods to be stored without the need for warehouse space to protect them.

Shipping containers are standardised in terms of their size and the fittings that are used to secure them on a ship, train or truck. Those same fittings are also compatible with the hoists used for loading and unloading at ports and road and rail terminals. Containers can be purchased with refrigeration, air conditioning and other systems that enable them to be used to prolong the lives of perishable goods during transportation and storage.

Intermodal transportation can offer rapid and efficient movement of goods in comparison to single mode transport. For example, it may be cheaper to use an articulated truck to transport manufactured goods from a factory to the nearest rail terminal and have them complete their journey by freight train rather than making the entire journey by road.



The intermodal transport can be made more efficient by using inland ports. These are basically rail terminals that are not served by a seaport. They are usually located close to both main railway lines and motorways so that they can act as distribution centres, offering flexibility in the collection and onward movement of goods. They also have storage facilities to enable goods to be offloaded and held until they are needed.

It is often cheaper to take goods arriving by ship to an inland port for storage or distribution. Seaports usually have good rail links, but it can be expensive to store goods there because of restrictions on space. Similarly, goods can be offloaded at an inland port before taking them by rail to a seaport.



Inland ports can also be used for transporting goods within the country. They can make it cost-effective to transfer goods from road to rail, even if the railway journey is relatively short.

Daistruk

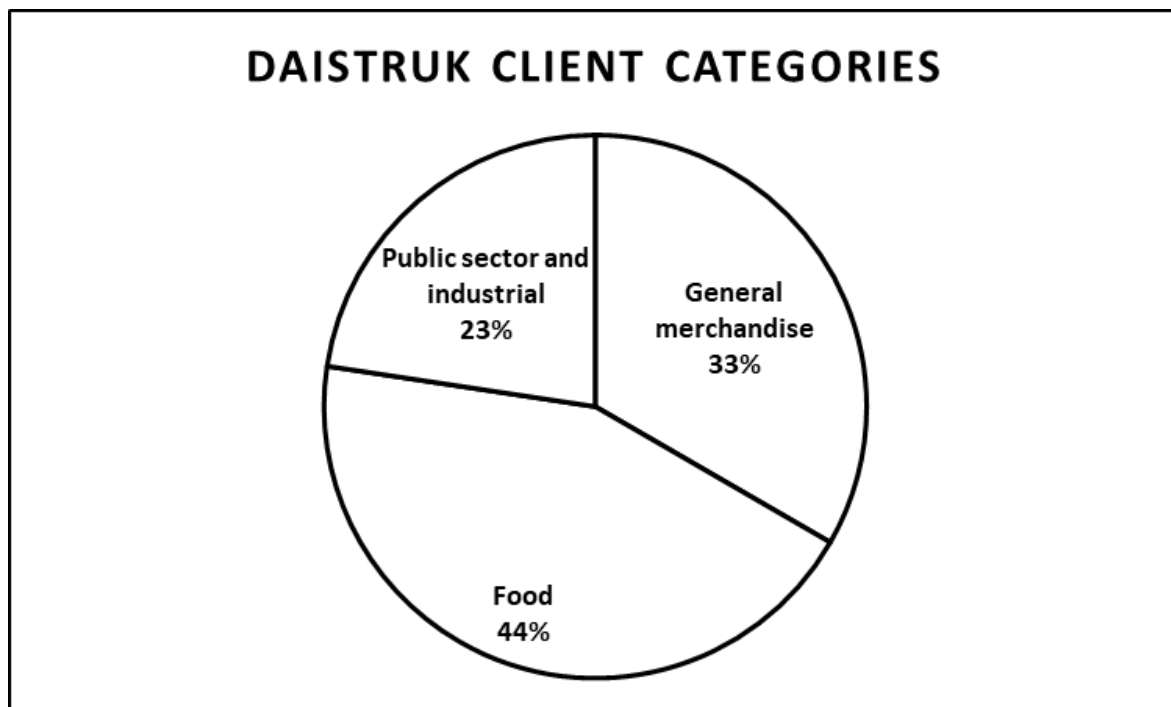
Daistruk was established in 1958 as a transport company to move building materials for the construction of a large steelworks that was being built in its hometown. The company grew rapidly, expanding its client base and buying additional vehicles and employing more drivers. By 1974, it was transporting loads by road across the whole of Roundland. Daistruk was quoted on Roundland's stock exchange in 1978. The company now employs 22,000 people, including 7,000 drivers.

Daistruk is now one of the largest 3PL logistics providers in Roundland. It provides intermodal logistics management services to many large organisations including:

<p>Inventory management</p>	<p>Daistruk provides IT-based services to manage customers' inventory and enhance efficient transport:</p> <ul style="list-style-type: none"> • Planning and optimisation of uplifts and despatches • Data capture and analysis • Optimisation of vehicle utilisation • Modelling and decision making with respect to inventory holding <p>Clients provide Daistruk with access to relevant data held on their enterprise resource planning (ERP) systems. Daistruk uses a warehouse management system (WMS) to track inventory levels and movements of goods.</p> <p>Daistruk can manage elements of a client's supply chain. Clients may issue instructions relating to the movement of goods, or they may ask Daistruk to monitor and manage inventory at different locations. For example, a supermarket client might pay Daistruk to replenish shops using goods held under Daistruk's management and at Daistruk's discretion, provided the shops do not run out of products and have space for the incoming deliveries.</p>
<p>Shared user storage and handling</p>	<p>Daistruk has 35 warehouses spread across Roundland. These are used to store and despatch goods. Clients are charged on the basis of the storage space occupied and the length of occupancy, with additional charges for inventory handling. Inventory handling includes checking incoming goods, putting them into storage and collecting them and processing them for despatch.</p> <p>The warehouses have areas set aside for the storage and handling of different types of goods, including temperature and humidity-controlled areas for storing food and secure areas for the storage of high-value items.</p>
<p>Outsourced warehouse management</p>	<p>Daistruk operates 90 warehouses belonging to clients, providing both labour and all aspects of inventory handling.</p>
<p>Shared usage transport</p>	<p>Daistruk owns 4,500 articulated tractor units and 6,500 trailers. All are available for shared usage. That enables goods to be carried as part-loads, which reduces transportation costs. It also makes it possible for trucks to backhaul loads on the return journey, again offsetting running costs for clients.</p> <p>Shared usage reduces the number of vehicles on the roads, making this a more sustainable means of operation.</p> <p>The company's trailer fleet includes 800 tankers that can carry liquids or powder. 600 of those are available for the carriage of fuel and chemicals. The remainder are for the carriage of foods, including milk and vegetable oils.</p> <p>The company has a further 1,000 smaller vehicles, including rigid trucks and vans, to offer a flexible and efficient service.</p>

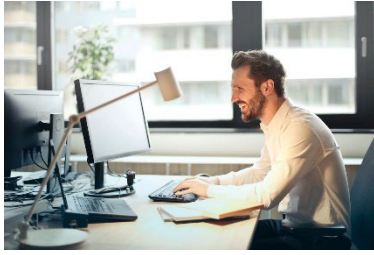
<p>Rail transport and intermodal</p>	 <p>Daistruk owns ten railway locomotives that pull loads on Roundland’s national rail network. These operate continuously, with each trainload carrying the equivalent of up to 80 articulated trucks’ worth of goods.</p> <p>Daistruk owns two inland ports in Roundland, in addition to the 35 warehouses that it uses for shared storage. The inland ports are used primarily for the short-term storage of goods that are in shipping containers and for switching shipping containers between trains or between rail and road transport.</p> <p>Daistruk can manage the import and export of goods by sea, using both trucks and trains for deliveries to and collections from Roundland’s seaports. The company does not own its own ships, but it works closely with shipping companies to organise cargo for its clients. Daistruk’s staff can also manage the documentation and other administrative issues associated with customs regulations. The company can make similar arrangements for air cargo.</p>
<p>Specialised loads</p>	 <p>Daistruk offers a specialised service for the transportation of oversized loads. Clients in the construction industry often need to move large items such as wind turbines. These require specialised equipment and specially trained and licenced drivers.</p>

Daistruk has three main categories of client:



Some customers do not fit within a single category. For example, Muddocks Supermarkets is one of Daistruk’s largest clients in terms of revenue. Each of Muddocks’s shops sells clothes

and household goods as well as food. Where appropriate, Daistruk will use the same truck to deliver both food and non-food items to shops. Muddocks also sells fuel to motorists and has filling stations at most of its shops, and so Daistruk also provides tanker services.



Daistruk's IT systems track client inventory in real time. Clients can access information relating to their inventory and can instruct Daistruk to organise movements of goods. Those instructions are sent electronically. For example, Muddocks Supermarkets may wish five shipping containers of tinned goods to be collected from the docks, transported to a warehouse and unloaded by forklift. Daistruk would acknowledge the instruction and would then ensure that

suitable vehicles were assigned to meet the ship. Drivers would be assigned to this task and told which trucks and trailers they should use.

Daistruk's IT systems also track the services being provided for clients. These are priced in accordance with the nature of the support being offered. For example, inventory stored on pallets at one of Daistruk's warehouses will be charged at a daily rate per pallet, with additional charges for any movements, such as unloading a trailer or a container or picking items to make a load for despatch.

All of Daistruk's vehicles are fitted with electronic trackers that update the transportation staff on their locations and status at all times. Transportation staff, supported by software, can manage loads and select the most efficient routes, which can be helpful when part loads must be carried and offloaded. For example, Muddocks might wish to replenish six of its shops with a variety of cleaning materials. Daistruk's warehouse staff would receive electronic instructions telling them which pallets to pick and the order in which they are to be loaded onto the trailer. The truck driver would then drive from shop to shop, following a route that both minimised time and distance and maximised the overall efficiency of each delivery.

Daistruk's IT systems can monitor the estimated time of arrival at each location. Delays due to traffic or weather conditions can be predicted and revised routes can be sent to the satnav system in each truck. If a delay cannot be avoided, then the systems will send a warning to the client.

Apart from monitoring delivery times, Daistruk must also ensure that its drivers do not exceed their permitted hours. Roundlandian law makes it an offence for a driver to drive for more than 9 hours each day. That limit is in place to reduce the risk of drivers losing concentration or falling asleep while driving.

Extracts from Daistruk's annual report

Daistruk's mission and values

Daistruk's mission

Daistruk gets things done.

Daistruk's vision

Daistruk's vision is to have a positive impact on all stakeholders through the provision of sustainable supply chain strategies and services.

Dastruk's core values

- Dastruk is passionate about providing excellent service.
- Dastruk delivers excellent service at all times.
- Dastruk acts with integrity in dealing with its stakeholders.
- Dastruk trusts and respects its employees and provides a safe working environment.

Dastruk's Board of Directors

Mabalemi Maleka, Non-Executive Chair

Mabalemi had a long and successful career as a politician, including spending 2 years as a junior minister for railways. She has now retired from politics. In addition to her position on Dastruk's board, she is a visiting professor of economics at Central City University. Mabalemi joined Dastruk's Board in 2020.

Henrik Gerding, Chief Executive Officer (CEO)

Henrik has a degree in computer science. He worked in software development with a major IT company before joining Dastruk as a senior manager in the company's data centre. Henrik joined Dastruk's Board as Chief Information Officer (CIO) in 2016. He was promoted to Chief Executive Officer in 2020.

Doreen Sumpat, Chief Operating Officer (COO)

Doreen holds a heavy goods vehicle licence. She worked in a food warehouse after leaving school, during which time she learned to operate forklifts. She went on to learn how to drive articulated trucks. She joined Dastruk in 2002 as a trainee warehouse manager. She completed a part-time MBA degree, after which she was promoted to various management roles within the company. Doreen joined Dastruk's Board in 2017.

Rasim Hamid, Chief Finance Officer (CFO)

Rasim is a qualified accountant. He spent much of his career working for a leading supermarket company, during which time he completed his professional training and worked his way up to a senior management role in the finance function. He joined Dastruk in 2015 as Chief Accountant and was promoted to CFO in 2019.

Andrea Lopes, Chief Information Officer (CIO)

Andrea studied data science at university. After graduating, she worked in logistics management with a variety of manufacturing companies. She joined Dastruk in 2017 as a senior IT manager. She was promoted to her present position on the Board in 2020, replacing Henrik Gerding as CIO.

Max Foster, Human Resources Director

Max has significant experience of human resource management at a senior level. He was HR Director at a major quoted construction company before joining Dastruk's Board in 2020.

Professor Hongyu Liu, Senior Independent Director

Hongyu had a successful career in academia, latterly as a professor of management science at Capital City University. She joined Daistruk’s Board as an independent director in 2019, combining that with convening the Management Committee of Capital City Hospital. She was appointed Daistruk’s Senior Independent Director in 2021.

Khaled Abbas, Independent Non-Executive Director

Khaled has an engineering background. He spent most of his career worked for a leading vehicle manufacturer, latterly as Director of Innovation. He retired from full-time employment in 2018. Since then, he has combined his role on Daistruk’s Board with convening a professional engineering body’s outreach programme to encourage school pupils to consider a career in engineering.

Nathalie Brulat, Independent Non-Executive Director

Nathalie worked for Roundland’s Department of Transport for most of her career. She had reached a senior position by the time of her retirement. She was involved in drafting legislation on a variety of issues, including revisions to motorway speed limits and updating the tests required for driving licences. Nathalie joined Daistruk’s Board when she retired from government service in 2021.

Directors’ responsibilities

Henrik Gerding Chief Executive Officer			
Doreen Sumpat Chief Operating Officer	Rasim Hamid Chief Finance Officer	Andrea Lopes Chief Information Officer	Max Foster Human Resources Director
<ul style="list-style-type: none"> • Transportation • Liaison with clients • Warehouse operations 	<ul style="list-style-type: none"> • Financial reporting • Management accounting • Treasury 	<ul style="list-style-type: none"> • IT operations • IT security • Software maintenance and development 	<ul style="list-style-type: none"> • Recruitment and selection • Staff retention • Health and Safety

	Board committees			
	Audit	Risk	Remuneration	Nomination
Mabalemi Maleka Non-Executive Chair	◆	◆		◆
Professor Hongyu Liu Senior Independent Director	◆		◆	◆
Khaled Abbas Independent Non-Executive Director	◆	◆	◆	
Nathalie Brulat Independent Non-Executive Director		◆	◆	◆

Daistruk’s Chief Internal Auditor reports to the convener of the Audit Committee.

Daistruk’s Principal Risks

Risk impact	Risk mitigation
<p>Concerns about the consumption of fossil fuels have caused both statutory and reputational risks for companies that rely heavily on the movement of goods by road and rail freight.</p> <p>The Roundlandian government is aiming for the country to achieve net-zero carbon emissions by 2052.</p>	<p>Daistruk has been proactive in setting targets for reductions in its carbon emissions.</p> <p>The company has actively pursued the use of new technologies to reduce emissions.</p>
<p>Daistruk’s activities create significant health and safety risks. Handling goods and operating delivery vehicles can put employees and others at serious risk of injury.</p> <p>Daistruk’s operations can also risk damage to property belonging to third parties, including clients’ goods, premises and vehicles.</p>	<p>All staff receive health and safety training during their induction. Ongoing training is provided.</p> <p>Daistruk has detailed procedures in place to minimise the risks of injury and damage to property. Those procedures include the need for specific training relating to tasks and the operation of equipment.</p> <p>Detailed records are maintained about all events that have caused injury or damage or that had the potential to do so.</p>
<p>Clients depend on Daistruk for the prompt and reliable movement of goods. Any failure to meet schedules is both visible and potentially damaging to business relationships.</p>	<p>Daistruk has comprehensive IT systems that manage the movement of goods and that can predict any delays and alert transportation management staff so that action can be taken and clients can be kept informed.</p>
<p>Daistruk relies heavily on its IT systems to ensure that all movements of goods are planned and executed on time and as efficiently as possible. The company’s IT systems are potentially vulnerable to attack or downtime due to problems with hardware or software.</p>	<p>Daistruk’s IT managers are vigilant with regard to monitoring potential threats and responding accordingly.</p> <p>All systems, including security software, are kept up to date at all times.</p> <p>The threat of emerging vulnerabilities is evaluated, seeking advice and conducting penetration tests where appropriate.</p>
<p>Daistruk relies heavily on its ability to recruit and retain employees to fill key roles, including drivers with the heavy goods vehicle licences that are required to drive articulated trucks.</p>	<p>The Board pays close attention to rates of staff turnover and responds to any threats. Daistruk ensures that staff pay is competitive with respect to the rest of the industry.</p>

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

	2022	2021
	R\$ million	R\$ million
Revenue	1,989	1,810
Operating costs	<u>(1,850)</u>	<u>(1,701)</u>
Operating profit	139	109
Finance costs	<u>(14)</u>	<u>(13)</u>
	125	96
Tax expense	<u>(15)</u>	<u>(12)</u>
Profit for the year	<u><u>110</u></u>	<u><u>84</u></u>

Daistruk Group
Consolidated statement of changes in equity
for the year ended 31 December 2022

	Share capital	Retained earnings	Total
	R\$ million	R\$ million	R\$ million
Opening balance	100	310	410
Profit for year		110	110
Dividend		<u>(92)</u>	<u>(92)</u>
Closing balance	<u><u>100</u></u>	<u><u>328</u></u>	<u><u>428</u></u>

Daistruk Group
Consolidated statement of financial position
as at 31 December

	2022	2021
	R\$ million	R\$ million
Assets		
Non-current assets		
Property, plant and equipment	530	511
Goodwill	91	91
	<u>621</u>	<u>602</u>
Current assets		
Inventory	3	2
Trade receivables	290	257
Bank	32	28
	<u>325</u>	<u>287</u>
	<u>946</u>	<u>889</u>
Total assets	<u>946</u>	<u>889</u>
Equity		
Share capital	100	100
Retained earnings	328	310
	<u>428</u>	<u>410</u>
Liabilities		
Non-current liabilities		
Borrowings	280	260
Current liabilities		
Trade payables	224	206
Tax liability	14	13
	<u>238</u>	<u>219</u>
	<u>946</u>	<u>889</u>
Total equity and liabilities	<u>946</u>	<u>889</u>

Extract from competitor's financial statements

Daistruk is one of the largest 3PL logistics providers in Roundland. Its biggest competitor is Carree, which provides a similar range of services to Daistruk's, including a full intermodal service.

The logistics industry is very competitive. Most large entities have outsourced this function already. The volume of available business depends on the level of economic activity.

Carree Group

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

	2022	2021
	R\$ million	R\$ million
Revenue	2,347	2,154
Operating costs	(2,128)	(1,939)
Operating profit	219	215
Finance costs	(12)	(12)
	207	203
Tax expense	(25)	(24)
Profit for the year	182	179

Carree Group

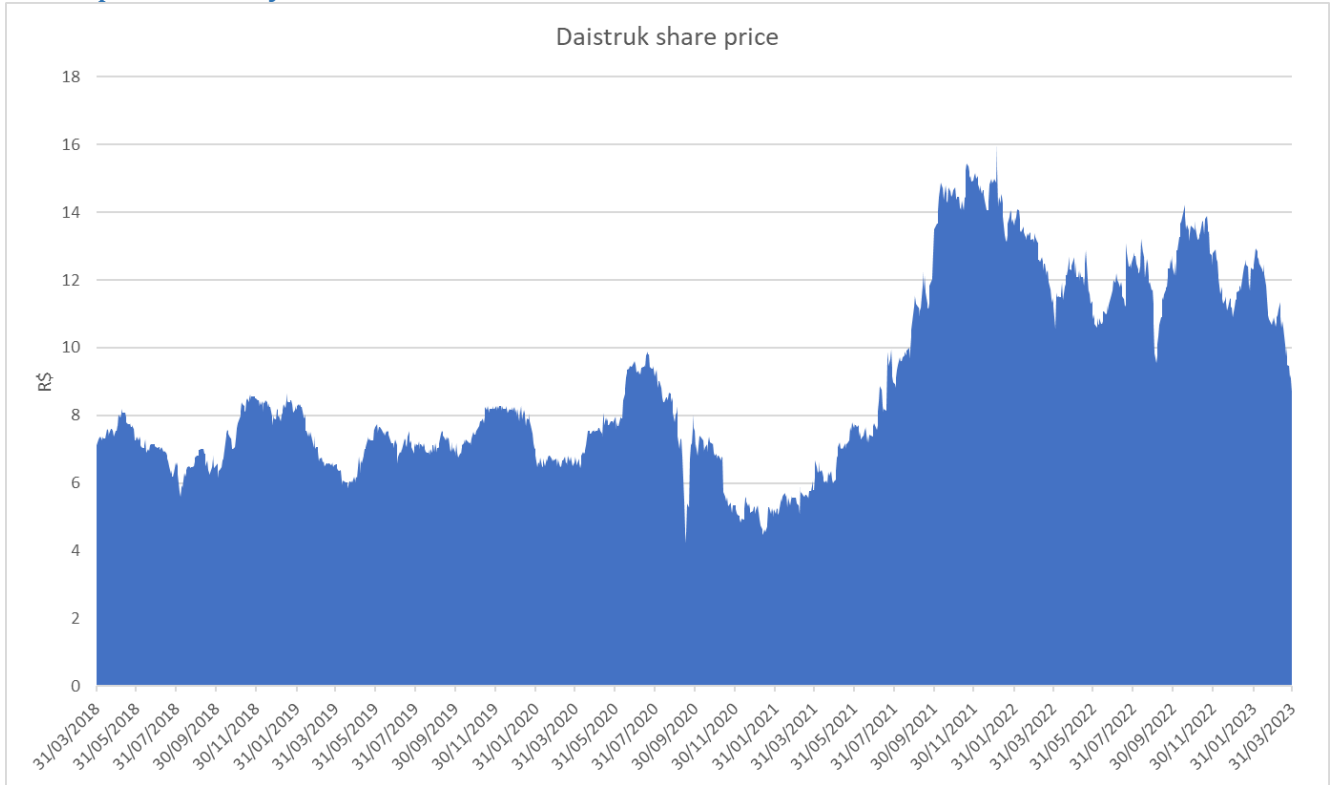
Consolidated statement of changes in equity for the year ended 31 December 2022

	Share capital	Retained earnings	Total
	R\$ million	R\$ million	R\$ million
Opening balance	300	105	405
Profit for year		182	182
Dividend		(155)	(155)
Closing balance	300	132	432

Carree Group
Consolidated statement of financial position
as at 31 December

	2022	2021
	R\$ million	R\$ million
Assets		
Non-current assets		
Property, plant and equipment	592	570
Goodwill	100	100
	<u>692</u>	<u>670</u>
Current assets		
Inventory	4	3
Trade receivables	329	280
Bank	36	32
	<u>369</u>	<u>315</u>
Total assets	<u><u>1,061</u></u>	<u><u>985</u></u>
Equity		
Share capital	300	300
Retained earnings	132	105
	<u>432</u>	<u>405</u>
Liabilities		
Non-current liabilities		
Borrowings	300	300
Current liabilities		
Trade payables	305	258
Tax liability	24	22
	<u>329</u>	<u>280</u>
Total equity and liabilities	<u><u>1,061</u></u>	<u><u>985</u></u>

Share price history



Daistruk's beta is 1.27.

News stories

Happy Comic

Readers' questions



Question: I see lots of trucks carrying shipping containers. How do they transport goods that can't be carried in a big metal box?

Anita, age 11

Answer: Shipping containers have standard dimensions that makes them easy to stack on the decks of cargo ships. Being a standard size also makes it easy to carry them on trailers towed by articulated trucks and on railway wagons. Containerloads of goods can be transported all over the world, getting transferred between ships, trains and trucks without having to be unloaded until they reach their destination.

Most containers are just metal boxes, which are ideal for carrying a huge range of goods ranging from mobile phones to fruit. It is, however, possible to create containers for other purposes. For example, there are containers that open at the top which makes them ideal for loading and unloading bulk products such as wheat and grain. Containers can also be supplied as tanks for carrying liquid or gas. Those are built into a frame that lets them stack with standard metal containers and they also fit on the same trailers and wagons as standard containers.

Happy Comic

Readers' questions



Question: Why do some trucks have big curtains along the side? Wouldn't metal be a lot stronger?

Rocco, age 12

Answer: Some trucks and some shipping containers are designed to open at the side. In fact, they are called "curtain sides". The side openings make it easier to load and unload them using forklift trucks. That can be very convenient if goods at the front of the container have to be unloaded first.

The curtains are made out of very strong material, so they don't tear easily. Also, the cargo is secured to the floor, so the load doesn't lean against the curtain.

You might not have noticed, but some trucks have curtain tops. The sides are solid, but the roof is a sliding curtain that can be opened and closed. That can be very convenient when loading loose goods such as coal, which can be poured in once the top has been slid open.

Happy Comic

Readers' questions



Question: My Dad operates a forklift at South City Port, but he doesn't have a licence to drive a car. Is he breaking the law?

Asim, age 11

Answer: The good news is that there is no need to have a car licence in order to operate a forklift truck. Forklift drivers do, however, need to have completed a formal training programme. That is important because forklifts can be difficult to drive. Loads can make a forklift very unstable if the forks are lifted too high. They can also block the driver's view of anything (or anyone) in the road ahead.

Roundland Telegraph

Roundland's first fully automated container terminal



Daistruk, the major logistics company, has just completed the modernisation of both of its inland ports.

Both ports have now been fully automated by the purchase of 40 Vivibon 3000 straddle carriers, all of which are fully automated. Software and sensors enable these carriers to operate without a driver. They can load and unload both trucks and railway wagons, carrying fully-laden shipping

containers to their desired location, either transferring them from one vehicle to another or stacking them up to four units high for temporary storage.

A spokesperson for Daistruk commented that the modernisation meant that the company could carry even more goods by rail instead of by road. The automation improves reliability because the company will be less vulnerable to shortages of skilled crane drivers.

Roundland Daily

Motorway chaos disrupts holiday travel



Three trucks carrying oversized loads created a massive holdup on the M12 Motorway, delaying holidaymakers who were attempting to catch flights from Central City Airport which is located by the M12.

The trucks in question belong to Daistruk, the logistics company. A spokesperson told the Roundland Daily that the vehicles had been scheduled to leave at 4.00 that morning, but a mechanical problem with one of the vehicles had delayed departure by 2 hours. That meant that the trucks and their escorts were passing the airport during the morning rush hour, holding up traffic in the process. The size of the loads meant that the trucks occupied two lanes of the motorway, leaving only a single lane for motorists trying to get to the airport and beyond, which caused substantial tailbacks of traffic. The large loads also meant that the trucks were restricted to 40 kilometres per hour.

There are very strict rules concerning the carriage of oversized loads on public roads. These include the need for drivers to be accompanied by attendants in the cabs of their trucks, vehicles to be fitted with marker boards and additional lighting and the provision of escort vehicles to prevent road users from getting too close to the load. There are also strict rules on the maximum size and weight that can be carried.

Central City Police confirmed that they had been notified of the load. Daistruk had complied with all applicable regulations. No accidents had been reported.



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-task/s	% 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) 40% (b) 60%

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 have received the following email:

From: Rasim Hamid, Chief Finance Officer

To: Senior Finance Manager

Subject: Environmental protests

Hi,

I have attached a news report that has just gone online.

The Board is meeting tomorrow to discuss this development. To help me prepare, I need you to draft a briefing for me that covers the following:

- First, explain whether or not Daistruk should recognise the environmental protesters as stakeholders and, if so, discuss the advantages and disadvantages for Daistruk of engaging with them.

[sub-task (a) = 60%]

- Second, recommend how the risks that Daistruk's operations could be disrupted by protests should be addressed and recorded in the risk register.

[sub-task (b) = 40%]

Regards

Rasim

The news report referred to by Rasim can be viewed by clicking the Reference Material button above.

Roundland Telegraph

Climate protest disrupts distribution centre



Environmental protesters staged a protest at the main gates of a warehouse owned by the Carree Group, one of Roundland's largest logistics companies. The protest was intended to draw attention to the impact of road transport on the environment.

A spokesperson for the protesters claimed that logistics companies, including Carree, damage the environment, both directly and indirectly. Their trucks consume large quantities of diesel fuel. They also create congestion on the roads and so cause other road users to consume fuel while delayed by heavy traffic. The problems are then compounded when road users lobby for new roads to be built and existing roads to be widened. Expanding the road network encourages even greater road use.

The protesters blocked the road leading to the warehouse's main entrance for 2 hours before withdrawing. Their spokesperson warned that there would be further protests at other key locations belonging to Carree and other logistics companies, and that the level of disruption would escalate unless logistics companies agree to stop transporting goods by road.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.

From: Senior Finance Manager
To: Rasim Hamid, Chief Finance Officer
Subject: RE: Environmental protests

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

A month later, Rasim Hamid stops by your workspace:

"I have brought you an extract from the minutes of this morning's Board meeting.

I need the following from you:

- First, evaluate the possible replacement of road transportation with rail, by reference to Daistruk's vision 'to have a positive impact on all stakeholders, through the provision of sustainable supply chain strategies and services'.

[sub-task (a) = 50%]

- Second, recommend with reasons how Daistruk should raise the R\$110 million to fund this investment."

[sub-task (b) = 50%]

The extract referred to by Rasim can be viewed by clicking the Reference Material button above.

Extract from Board minutes

Increased use of rail transport

The Board discussed continuing concerns that its heavy use of road transport was attracting the attention of environmental campaigners. Two of Daistruk's warehouses have been affected by protests in the past month, with campaigners blocking entry and exit for 8 hours on each occasion.

Doreen Sumpat, Chief Operating Officer, proposed that Daistruk should consider increasing its capacity to carry goods by rail instead of transporting them by road. Her staff had conducted some preliminary studies and had established the following:

- Daistruk could replace 800 of its articulated trucks with 11 railway locomotives, wagons and upgraded software. That would have the effect of reducing the miles covered for road transport by 12% after taking account of the need for short journeys to transport goods to their final destination by road.
- It would be necessary to invest R\$110 million in new equipment and software, after allowing for the proceeds of selling the 800 trucks.

Switching to rail would increase Daistruk's operating costs by 7% for those goods compared to costs incurred for road transportation.

Daistruk will have to negotiate the routes and timings for its trains with Roundland National Rail, which owns the national rail network.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.

Rich text editor toolbar with icons for: Undo, Redo, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, Text Color, Paragraph, Table, Bulleted List, Numbered List, Indent Left, Indent Right, Decrease Indent, Increase Indent.

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

Four months later, Daistruk has made a public commitment to replace 800 of its articulated trucks with 11 railway locomotives and associated wagons. That will have the effect of reducing the miles covered for Daistruk's road transport by 12%. This will significantly reduce road congestion and carbon emissions attributable to Daistruk's operations. Rasim Hamid asks you to join him in a meeting room:

"I have brought you an extract from Daistruk's draft sustainability report, which will be included in our annual report.

I need you to advise me on two matters:



- First, evaluate the argument that it is unethical for Daistruk to claim that the switch to rail is evidence of progress towards specific United Nations (UN) Sustainability Development Goals (SDG). Please bear in mind that the main reason for doing so was concern that we would be targeted by environmental campaigners if we did not reduce our use of road transport.
[sub-task (a) = 40%]
- Second, evaluate the arguments for and against Daistruk's Board establishing a sustainability committee of non-executive directors to review our operations and disclosures."
[sub-task (b) = 60%]

The extract referred to by Rasim can be viewed by clicking the Reference Material button above.

Extract from draft of Daistruk's sustainable business report

Daistruk is an enthusiastic supporter of the UN Sustainable Development Goals (SDG). Recent changes have enhanced our support for three goals in particular:

Industry, innovation and infrastructure	Daistruk's increased use of rail transportation will encourage the development of sustainable infrastructure for the movement of goods.
Sustainable cities and communities	Daistruk's plans to move more goods by rail will significantly reduce the number of articulated trucks on the roads, thereby reducing delays for road users and the carbon emissions associated with congested roads.
Responsible consumption and production	Daistruk is a leading logistics provider. Our increased use of rail transport will enable the retailers, manufacturers and other entities which we serve to reduce the carbon footprint of the goods that they sell.

 Reference Material Pre-seen

Draft your response to Rasim's requests in the box below.



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.



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

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

Rasim Hamid, Chief Finance Officer, stops by your workspace:

"I have printed a news article that has just gone online. This is the first public announcement relating to the prototype shipping container that has been designed by technical staff in Daistruk's Vehicle Maintenance Department. This container has the potential to improve efficiency and reduce operating costs in transporting grain.

Roundland imports large quantities of grain from Northland for use by Roundland's food industry. We generate 5% of our revenue from the transportation of grain from docks to factories. We could easily double income from that source if we could significantly undercut rival logistics companies on the price of moving grain.

Daistruk will have to borrow R\$40 million to complete the design work and build the shipping containers. Our gearing ratio is currently 39.5%. Borrowing R\$40 million will increase our gearing to 42.8%, which is a problem because the covenants on our existing loans forbid us to exceed 40%.

I need the following from you:

- First, recommend with reasons how we might use scenario planning to determine whether the benefits from investing in these shipping containers might be affected by:
 - a decrease in truck operating costs or
 - rival logistics companies developing their own improved grain shipping containers.

[sub-task (a) = 50%]

- Second, recommend with reasons how we should deal with the breach of our debt covenants if we borrow R\$40 million. Please note that we are unable to issue shares at present."

[sub-task (b) = 50%]

The news article referred to by Rasim can be viewed by clicking the Reference Material button above.

Roundland Telegraph

Daistruk unveils new grain container



Daistruk, the logistics company, unveiled a new design of shipping container at the Roundland Commercial Vehicle show in Central City. This container can carry 15% more grain on a conventional truck trailer or railway wagon than existing curtain top trailers, while remaining within all rules relating to the carriage of cargo by road or by rail.

Doreen Sumpat, Daistruk's Chief Operating Officer, commented that she was proud of this technical achievement. Trains unloading bulk grain carriers at the docks will be able to carry 15% more than previously. Grain is often transferred to trucks for final delivery to factories. This new container will mean that fewer trucks will be required to transport any given quantity.

Ms Sumpat admitted that the container was still at the prototype stage and that further work is necessary before it can be produced in quantity. Once ready, she believes that the new container will give Daistruk a significant cost advantage over other logistics companies in transporting grain.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.

Rich text editor toolbar with icons for undo, redo, bold, italic, underline, strikethrough, subscript, superscript, link, unlink, bulleted list, numbered list, indent, and outdent. The main text area is currently empty.

Reference Material

Pre-seen

Two weeks later, the investment in new shipping containers for the transportation of grain is still under consideration. You receive the following email:

From: Rasim Hamid, Chief Finance Officer
To: Senior Finance Manager
Subject: N\$

Hello,

I have attached a news article that has just gone online. It could have significant implications for Daistruk, both in terms of our decision to proceed with the proposed investment in shipping containers for grain and in more general terms for our business. I am concerned that we had not considered the possibility of a strengthening of the N\$ sooner.

I need your help with two matters:

- First, recommend with reasons the ways in which Daistruk should respond to the economic risks arising from the strengthening of the N\$. I am interested in the impact on all aspects of our business, including the effect on our decision to invest in the new shipping containers.

[sub-task (a) = 60%]

- Second, recommend with reasons the extent to which Daistruk's risk register should address the risks associated with movements on individual currencies.

[sub-task (b) = 40%]

Rasim

The news article referred to by Rasim can be viewed by clicking the Reference Material button above.

Roundland Telegraph

N\$ set to strengthen



The Northlandian government has taken decisive action to strengthen the N\$. The currency has been weak for more than a year, but the government's action increased its value relative to the R\$ by 20%. Economic commentators believe that these measures will create a period of stability for Northland's economy.

Northland is one of Roundland's most important trading partners. Northland supplies 70% of Roundland's wheat and 60% of Roundland's oil. Northland is also a major importer of manufactured goods from Roundland, including pharmaceutical, electronics, vehicles and aircraft.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.

From: Senior Finance Manager
To: Rasim Hamid, Chief Finance Officer
Subject: RE: N\$

Rich text editor toolbar with icons for: New document, Cut, Copy, Paste, Undo, Redo, Table, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, Link, Paragraph, Table, Bulleted list, Numbered list, Indent, Outdent, Decrease indent, Increase indent.

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

Eight months later, Daistruk has taken possession of 200 grain shipping containers.

Rasim Hamid stops by your workspace:

"I have brought you an extract from this morning's Board meeting.

I need your advice on two matters:

- First, evaluate the ethical arguments for and against permitting rival companies to buy the design of our grain shipping container. Bear in mind that Daistruk's vision is "to have a positive impact on all stakeholders through the provision of sustainable supply chain strategies and services".
[sub-task (a) = 40%]
- Second, recommend the work that Daistruk's Internal Audit Department might undertake in order to ensure that the technical drawings of the shipping containers are secure."
[sub-task (b) = 60%]

The extract referred to by Rasim can be viewed by clicking the Reference Material button above.

Extract from Board minutes

Doreen Sumpat, Chief Operating Officer, informed the Board that Daistruk had taken delivery of 200 grain shipping containers. These were manufactured by an external truck builder using technical drawings that had been provided by Daistruk's technical staff. These containers can carry 15% more grain by road or rail than conventional containers, reducing the number of vehicles required to carry a given quantity of grain and so giving Daistruk a significant cost advantage over competitors.

Ms Sumpat has been approached by several rival logistics companies, who wish to buy the rights to build these shipping containers for their own use in order to reduce the carbon emissions associated with handling cargos of grain.

Several members of the Board asked whether rivals could copy the design of these shipping containers. Ms Sumpat assured them that the only way to do so would be to access the technical drawings that had been created by Daistruk's technical staff using computer-aided design software. The truck builder who manufactured the containers was asked to sign a non-disclosure agreement.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.

Rich text editor toolbar with icons for: Undo, Redo, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, Text Color, Paragraph, Table, Bulleted List, Numbered List, Indent Left, Indent Right, Decrease Indent, Increase Indent.



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Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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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](#)

Rasim Hamid, Chief Finance Officer, asks you to join him in a meeting room:

"I have brought you the executive summary of a document that has been circulated to the Board.

Please advise me on the following:

- First, evaluate the proposed acquisition of Rayltray using the suitability, acceptability and feasibility criteria (SAF).

[sub-task (a) = 60%]

- Secondly, identify with reasons the problems that could emerge post-acquisition if Daistruk acquires Rayltray."

[sub-task (b) = 40%]

The executive summary referred to by Rasim can be viewed by clicking the Reference Material button above.

Proposal to acquire a third inland port

Executive summary

Prepared by Roger Phillips, Senior Transportation Manager

Daistruk's two inland ports are both operating at close to their maximum capacity. One is located in the north of Roundland and the other is in the south. Both have excellent rail links to major seaports and are also close to major railway lines and motorways. They are used to switch shipping containers between trains and trucks and also for the temporary storage of goods in shipping containers, which can be stacked out of doors.

An opportunity has arisen for Daistruk to acquire Rayltray, an unquoted company that owns and operates an inland port in northern Roundland. The inland port is Rayltray's only business activity. Rayltray's inland port is smaller than both of Daistruk's. It is used primarily for switching containers between road and rail transport. It does not have sufficient space to store containers. Its systems need only schedule the arrivals and departures of trains and trucks.

Rayltray's inland port is located 70 kilometres to the west of Daistruk's northern inland port. It has good access to road and rail links. The port is, however, in need of upgrading:

- Rayltray's lifting equipment is obsolete. It requires skilled operators and cannot stack containers on top of one another.
- The site has a large amount of undeveloped land that could be used to increase its capacity through the construction of roads, railway sidings and storage areas.
- Rayltray has contracts in place with Caree and several other logistics companies, including Daistruk, to provide intermodal transfers of shipping containers between trucks and railway wagons.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.

Rich text editor toolbar with icons for: Undo, Redo, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, Text Color, Paragraph, Table, Bulleted List, Numbered List, Indent Left, Indent Right, Decrease Indent, Increase Indent.

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

A month later, Daistruk's Board is still considering whether to acquire Rayltray, an unquoted company that owns and operates an inland port in northern Roundland.

You receive the following email:

From: Rasim Hamid, Chief Finance Officer
To: Senior Finance Manager
Subject: Acquisition of Rayltray

Hello,

I have attached an extract from the minutes of this morning's Board meeting.

I am about to brief the CEO, and I need your help with two matters:

- First, recommend with reasons how Daistruk should deal with the funding issues arising from: financing the R\$75 million acquisition of Rayltray; managing Rayltray's R\$40 million borrowings; and financing the R\$60 million for construction work at Rayltray.
[sub-task (a) = 60%]
- Second, evaluate whether the intention to retain Rayltray's senior management team implies that Daistruk lacks the strategic management skills to lead this new subsidiary.
[sub-task (b) = 40%]

Rasim

The extract referred to by Rasim can be viewed by clicking the Reference Material button above.

Extract from Board minutes**Rayltray**

Henrik Gerding, Chief Executive Officer, reminded the Board of the following:

- Rayltray's owners have agreed to sell 100% of the company's equity for R\$75 million.
- Rayltray has borrowings of R\$40 million, secured against the company's land. That debt will remain Rayltray's responsibility in the event of a takeover.
- Rayltray has significant unused land that will be used to expand road and rail capacity and to create space for temporary storage of shipping containers, which the site presently lacks. The construction work will cost R\$60 million.
- Increasing the number of train arrivals and departures at Rayltray will require permission from the owners of Roundland's national rail network. Permission will only be granted if it can be demonstrated that the trains can be operated safely and without delaying scheduled services.
- Rayltray's senior management team will remain in place on full salary for a period of 18 months in order to assist with the transition. That period can be extended by mutual agreement between the management team and Daistruk's Board.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.

From: Senior Finance Manager
To: Rasim Hamid, Chief Finance Officer
Subject: RE: Acquisition of Raylray

Rich text editor toolbar with icons for: New document, Cut, Copy, Paste, Undo, Redo, Bulleted list, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, Text color, Paragraph, Table, Indent, Outdent, Bulleted list, Numbered list, Decrease indent, Increase indent.

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

Four months later, Daistruk has completed its acquisition of Rayltray. Rayltray is operating as a 100% subsidiary of the Daistruk Group.

Rasim Hamid asks you to join him in a meeting room:

"I have brought you a copy of a letter from the Government agency that is responsible for workplace safety. The letter will be discussed at the next Board meeting. Daistruk has detailed safety procedures that address the areas raised by the Inspectorate. We provided the General Manager at Rayltray with a copy of those procedures when we acquired the company, but took no further action.

I need your advice on two matters:

- First, evaluate the risks arising from the matters identified in the letter.

[sub-task (a) = 50%]

- Second, recommend with reasons how the Internal Audit Department might assist Daistruk's Board to ensure that safety procedures at Rayltray are appropriate."

[sub-task (b) = 50%]

The letter referred to by Rasim can be viewed by clicking the Reference Material button above.

Roundland Safety Inspectorate

Doreen Sumpat,
Chief Operating Officer,
Daistruk,
Capital City.

Dear Ms Sumpat,

Safety inspection at Rayltray inland port facility

I am writing to offer you some initial feedback from a surprise safety inspection carried out at Daistruk's Rayltray inland port. The following points were noted:

- The port's General Manager is also the only designated safety officer.
- Rayltray uses large forklift trucks to load and unload shipping containers to and from articulated truck trailers and railway wagons. None of the staff who were observed operating forklifts during our visit could provide our inspection team with evidence that they had completed the formal training in forklift operation that is required by Roundlandian law. The General Manager informed the inspection team that forklift operators are required to confirm in writing that they have been trained. Furthermore, all drivers are experienced forklift operators.
- There were no records to confirm that forklifts are being checked or maintained regularly. The General Manager pointed out that the port operates on for 24 hours a day, seven days a week. Any mechanical defects quickly become apparent to operators and result in the forklifts being taken out of service until they can be repaired.

Yours sincerely,

Wouter Zweers

Wouter Zweers,
Senior Safety Inspector

[Scratch Pad](#) [Calculator](#)[Reference Material](#)[Pre-seen](#)

Draft your response to Rasim's requests in the box below.



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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-task/s	% 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

Rasim Hamid, Chief Finance Officer, stops by your workspace:

"I have downloaded a news report that makes worrying reading for Daistruk. None of the electric heavy goods vehicles (HGVs) that are available have sufficient range to replace our diesel-powered trucks. Truck manufacturers are working on this problem, but it will be at least 5 years before it will be possible to buy an electric HGV that meets our needs. Electric HGVs will cost more to purchase and operate than the diesel HGVs that we use at present.

I need your advice on two matters before the Board meets to discuss the news report's implications for Daistruk:

- First, identify three key stakeholders, other than the Government, whose support we might seek in order to postpone this deadline and recommend how we might deal with each.

[sub-task (a) = 60%]

- Second, discuss whether it would be ethical for Daistruk to lobby Roundland's Government to withdraw its commitment to ban the sale of petrol and diesel-engined road vehicles by 2035."

[sub-task (b) = 40%]

The news report referred to by Rasim can be viewed by clicking the Reference Material button above.

Roundland Telegraph

Roundland Government plans to ban the sale of fossil fuel vehicles



Roundland's Minister for Transport has published plans to ban the sale of petrol and diesel-engined road vehicles by 2035. It will still be possible to own and use such vehicles after that date, although it is anticipated that manufacturers will switch to the production of electric vehicles long before. This will encourage the development of an effective infrastructure for recharging vehicle batteries and the closure of petrol and diesel filling stations.


Electric cars and vans are already a common sight on Roundland's roads, however, there are very few heavy goods vehicles that run on battery power. The few trucks that are available are purchased for use on short journeys with frequent opportunities to recharge because range is still a concern.

The Minister said that replacing oil with electricity from renewable sources was an important step in reducing Roundland's carbon emissions.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.



A rich text editor toolbar with the following icons from left to right: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (Ix).

A second row of icons includes: a paragraph dropdown menu, a table icon, four text alignment icons (left, center, right, justified), a bulleted list icon, a numbered list icon, and two indent/outdent icons.

Reference Material

Pre-seen

A month has passed. Roundland's Minister for Transport remains committed to banning the sale of petrol and diesel-engined road vehicles by 2035.

You receive the following email:

From: Rasim Hamid, Chief Finance Officer
To: Senior Finance Manager
Subject: Electric heavy goods vehicle (HGV)

Hello,

I have attached a scanned copy of a letter that has been circulated to Board members.

Daistruk currently buys at least 500 HGVs each year.

The 800-kilometre range is sufficient for our requirements. Trochbild is the only manufacturer that has realistic plans to create a truck that can cover that distance on a one-hour charge.

I would value your opinion on two matters:

- First, evaluate the possibility that taking up the option to buy these HGVs would enable Daistruk to pursue an effective differentiation strategy within the logistics industry.

[sub-task (a) = 50%]

- Second, assuming that we buy this option, recommend with reasons the approach that we should take to ensure that the potential benefits are fully reflected in Daistruk's share price.

[sub-task (b) = 50%]

Rasim

The letter referred to by Rasim can be viewed by clicking the Reference Material button above.

Trochbild

Doreen Sumpat,
Chief Operating Officer,
Daistruk,
Capital City.

Dear Ms Sumpat,

Electric trucks model

I am writing to confirm the details that were discussed during your recent visit to our factory.

Trochbild is working on Sparxtruk, a new model of electric heavy goods vehicle (HGV). Our design engineers have been briefed to create a vehicle that is capable of towing a fully laden trailer for 800 kilometres at motorway speeds before requiring its batteries to be recharged. It will take less than 1 hour to recharge Sparxtruk's batteries. We have already developed and patented a battery design that makes this design brief achievable.

Sparxtruk will go into full production in 3 years. Unfortunately, the new battery technology will restrict output to 600 trucks each year for the first 5 years. After that, we will have eliminated the constraints on our output, and we will be able to satisfy all demand.

Sparxtruk will cost 30% more than an equivalent diesel truck. Its running costs and life expectancy will be roughly the same as those of a diesel.

As discussed, we are prepared to sell Daistruk an option to buy up to 600 units of Sparxtruk each year for the first 5 years of production. The option will cost R\$30 million.

Yours sincerely,



Astrid Hofer
Marketing Director

Reference Material

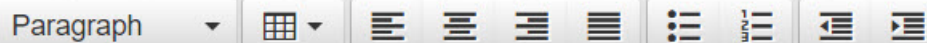
Pre-seen

Draft your response to Rasim's requests in the box below.

From: Senior Finance Manager

To: Rasim Hamid, Chief Finance Officer

Subject: RE: Electric heavy goods vehicle (HGV)



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

A month has passed.

Rasim Hamid asks you to join him in his office:

"I have brought you an extract from this morning's Board meeting.

I need your advice on two matters:

- First, evaluate the arguments both for and against awarding a bonus to Doreen Sumpat for her work on securing this option.
[sub-task (a) = 60%]
- Second, recommend with reasons the manner in which Daistruk's integrated report should reflect its option with Trochbild under the headings of social and relationship capital and intellectual capital."
[sub-task (b) = 40%]

The extract referred to by Rasim can be viewed by clicking the Reference Material button above.

Board minute extract

Electric HGVs


Doreen Sumpat, Chief Operating Officer, informed the Board that Daistruk had purchased the option to buy the first 3 year's output of Trochbild's electric heavy goods vehicle (HGV). Daistruk will be the only logistics company that has access to this HGV, which will have a patented battery that gives it a significantly greater range than competing trucks. That will be a strategic advantage because Roundland's Government will effectively restrict the use of conventional diesel-powered HGVs in the near future and so Daistruk's competitors might struggle to maintain their operations until Trochbild's HGVs become freely available.

Mabalemi Maleka, Non-Executive Chair, congratulated Dorren on her excellent work in securing this option. She informed the Board that she would recommend that the Remuneration Committee award Doreen a performance-related bonus.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.



A rich text editor toolbar with the following icons from left to right: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). Below these are two rows of alignment and list icons: the first row contains a paragraph dropdown, a table icon, and four text alignment icons (left, center, right, justified); the second row contains two list icons (bulleted and numbered) and two indent icons (left and right).



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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-task/s	% 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) 40% (b) 60%

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](#)

Rasim Hamid, Chief Finance Officer, asks you to join him in a meeting room:

“I have brought you an extract from a proposal to upgrade our warehouse management system (WMS).

I need your advice on the following matters:

- First, recommend how the proposal to upgrade the WMS can be evaluated in terms of changes to the digital ecosystem in which Daistruk operates.

[sub-task (a) = 60%]

- Second, identify and evaluate the cyber risks associated with this proposal.”

[sub-task (b) = 40%]

The extract referred to by Rasim can be viewed by clicking the Reference Material button above.

Proposal for upgrade to warehouse management system

Executive summary

Prepared by Shi Huang, Senior Manager in Information Technology

Daistruk owns 35 warehouses and two inland ports, all of which are used to receive, store and despatch goods belonging to clients. In addition, Daistruk staffs and operates 90 warehouses that belong to clients. Daistruk has many large clients from a range of industries including retail, manufacturing and construction.

Daistruk has a warehouse management system (WMS) that collects data from clients' enterprise resource planning (ERP) systems and manages goods accordingly. Daistruk's WMS is designed to minimise warehousing and transportation costs, but it is becoming out of date. The software that drives the system could be updated in several ways, including:

Problem	Solution
At present, incoming goods must go into storage before they become available for despatch.	The WMS could be programmed to make greater use of cross docking, which would involve goods arriving at a warehouse being taken directly to despatch where possible, instead of storing incoming goods while making up loads for despatch using goods from inventory.
At present, goods of different types are stored together. For example, all of the tinned soup belonging to a supermarket client might be stored together in the same area of the warehouse.	The WMS could be upgraded to make recommendations about storage locations that are more complicated, perhaps splitting up product types based on predicted demand so that picking of goods to fulfil orders is optimised.
At present, tasks are assigned to warehouse staff one by one. Each member of staff completes a task before being assigned another.	The WMS could predict movements of staff and assign each a schedule of tasks that takes account of their skills and roles. For example, a forklift operator might be assigned a sequence of loads that minimises the distance travelled without any load.


These upgrades would require detailed analysis of historical data about the movement of goods and would require additional data from clients so that Daistruk could predict the movement of goods with greater accuracy.

Upgrading the WMS should make more efficient use of the warehouse space available to Daistruk and should also reduce the costs to clients because their goods will be managed more efficiently.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.



A rich text editor toolbar with the following icons from left to right: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). Below these are two rows of alignment and list icons: a paragraph dropdown, a table icon, left-align, center-align, right-align, justify-align, bulleted list, numbered list, and indent-left/indent-right icons.

Reference Material

Pre-seen

A month later, you receive the following email:

From: Rasim Hamid, Chief Finance Officer
To: Senior Finance Manager
Subject: Upgrade to warehouse management system (WMS)

Hello,

I have attached a scanned copy of a letter that has been circulated to the Board.

BestWMS has an excellent reputation in the development of warehouse management systems. The company is based in Teeland, whose currency is the T\$. BestWMS insists on being paid in T\$ because their currency is volatile in comparison to the R\$. The exchange rate is presently $1.00 \text{ R\$} = 2.00 \text{ T\$}$.

I am interested in your opinion on two matters:

- First, recommend with reasons how we should finance the hardware and setup costs of T\$300 million and the first year's licence fee of T\$200 million.

[sub-task (a) = 50%]

- Second, recommend with reasons the approach that we should take to managing the currency risks associated with the annual licence fee in future years.

[sub-task (b) = 50%]

Rasim

The letter referred to by Rasim can be viewed by clicking the Reference Material button above.

BestWMS

Andrea Lopes,
Chief Information Officer,
Daistruk,
Capital City.

Dear Andrea,

Proposal to upgrade Daistruk warehouse management system (WMS)

Thank you for your interest in acquiring the BestWMS warehouse management system.

My technical staff have studied your requirements and have advised that you require:

- Hardware and initial setup

BestWMS will supply sufficient scanners with integrated communication modules to equip all of Daistruk's drivers, forklift operators and warehouse staff.

We will also install our BestWMS software and test its operation.

The total cost of this will be T\$300 million.

- Annual licence

BestWMS will charge an annual licence fee of T\$200 million, payable annually in advance. That will include the cost of maintaining and updating the software to meet your needs.

I look forward to your response.

Yours sincerely,

Giovanni Barbara

Giovanni Barbara,

Sales Director

Reference Material

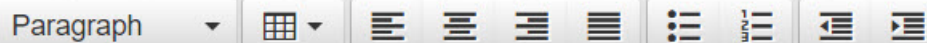
Pre-seen

Draft your response to Rasim's requests in the box below.

From: Senior Finance Manager

To: Rasim Hamid, Chief Finance Officer

Subject: RE: Upgrade to warehouse management system (WMS)



Reference Material

Pre-seen

Eight months later, Rasim Hamid asks you to join him in his office:

"I have brought you an extract from the minutes of this morning's Board meeting.

After the meeting, Henrik Gerding, our Chief Executive Officer, reminded me that Daistruk's core values include:

- Daistruk delivers excellent service at all times.

I am interested in your opinion on two matters:

- First, evaluate the arguments both for and against the need for the Board to take an active role in addressing the problems with the upgraded WMS in order to adhere to Daistruk's core value.

[sub-task (a) = 40%]

- Second, discuss the potential advantages and disadvantages of Daistruk establishing a board committee of non-executive directors to review IT matters."

[sub-task (b) = 60%]

The extract referred to by Rasim can be viewed by clicking the Reference Material button above.

Extract from Board minutes

Problems with upgraded warehouse management system (WMS)

Andrea Lopes, Chief Information Officer, reported that Daistruk's upgraded WMS had been installed by BestWMS, a reputable IT firm that specialises in warehouse management systems. The system has been operational for a month, but initial results have been disappointing:

- The number of late deliveries has increased by 10% since the upgraded system's installation because of inefficient scheduling of outbound loads.
- The system often miscalculates the number of times that goods in warehouses are handled, which has led to clients being overcharged for warehouse services.
- Goods that are despatched without first being stored are often being incorrectly recorded as if they have been taken into inventory, leading to overstatements of inventory.


Ms Lopes confirmed that BestWMS is under contract to rectify any errors in this new system.

It was agreed that the Board would hold a further meeting to discuss this matter.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.



A rich text editor toolbar with the following icons from left to right: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a subscript icon (I_x). Below these are two rows of alignment and list icons: the first row contains a paragraph dropdown, a table icon, and four text alignment icons (left, center, right, justified); the second row contains a bulleted list icon, a numbered list icon, and two indent/outdent icons.



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

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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-task/s	% 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

Rasim Hamid, Chief Finance Officer, asks you to join him in a meeting room:

"I have brought you an extract from a document that has been circulated to the Board by the Transportation Department. The Board is considering this opportunity carefully, despite the risks that it presents. I have been asked to assist with scenario planning.

Roundland's power generators will start to place orders for wind turbines from their supplier in Teeland within the next few months. It is important to note that those purchases are priced in T\$, which is volatile in relation to the R\$, which could have implications for Daistruk, even though our role would be restricted to transporting the wind turbines in return for a fee in R\$.

I plan to brief the Board soon, and I need you to assist me with the following:

- First, evaluate the impact of the following three scenarios and recommend possible courses of action.
 - The power generators might locate the new windfarms at sea instead of on land.
 - The power generators might locate new windfarms close to major railway freight terminals.
 - Competing logistics companies might attempt to recruit our specialist oversized load drivers.

[sub-task (a) = 60%]

- Second, evaluate the potential economic risks to Daistruk associated with potential movements in the T\$ against the R\$ and recommend possible responses."

[sub-task (b) = 40%]

The extract from the proposal referred to by Rasim can be viewed by clicking the Reference Material button above.

Proposal to expand oversized load capacity

Executive summary

Prepared by Alexandra Brito, Senior Manager in Transportation

Roundland's Minister for the Environment has pledged government support for a significant increase in the number of windfarms used by power companies to generate electricity. This is a potential opportunity for Daistruk because the new windfarms will require large numbers of wind turbines to be transported.

All of Roundland's wind turbines are imported from Teeland. They arrive in Roundland by ship. Most of Roundland's windfarms are located inland in isolated areas in the far north of the country, several hundred kilometres from the seaports and accessible only by road.

Each wind turbine is shipped as several very large components that are assembled onsite. Each component requires a specialised trailer that has been designed to carry long and heavy loads. The trailers are towed by articulated tractor units. These loads are classed as "oversized", meaning that they require a skilled driver who has received special training to drive these vehicles safely and without damaging the load. The trucks must be escorted by safety vehicles whenever they are on public roads.


Wind turbine components can be transported by rail, but they can be difficult to transfer from railway wagons to trucks for onward transportation to their final destination.

Daistruk transported 20% of the wind turbines that were used to construct Roundland's existing windfarms, but much of the equipment used on those contracts was scrapped due to it being worn out. We do not have sufficient capacity to transport many of the large number of wind turbines that will be imported over the next few years. Daistruk should invest heavily in suitable tractor units and trailers and also in the training of additional drivers.

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.



A rich text editor toolbar with two rows of icons. The first row includes icons for document, cut, copy, paste, undo, redo, link, bold, italic, underline, strikethrough, subscript, superscript, and subscripted x. The second row includes a paragraph dropdown, a table dropdown, and icons for bulleted list, numbered list, decrease indent, increase indent, bulleted list, and numbered list.

Reference Material

Pre-seen

A week later, you receive the following email:

From: Rasim Hamid, Chief Finance Officer

To: Senior Finance Manager

Subject: FWD: Possible acquisition

Hello,

I am forwarding an email that I received from the Chief Operating Officer.

The Board will meet soon to discuss this opportunity.

I need your help with two matters:

- First, evaluate the potential usefulness of competitor analysis to decide whether Daistruk should acquire Hevlylyft.

[sub-task (a) = 40%]

- Second, identify the challenges associated with negotiating a purchase price for Hevlylyft that would be acceptable to both Fahmi Sjafrri and Daistruk and recommend how those challenges might be overcome.

[sub-task (b) = 60%]

Rasim

The email referred to by Rasim can be viewed by clicking the Reference Material button above.

From: Doreen Sumpat, Chief Operating Officer
To: Rasim Hamid, Chief Finance Officer
Subject: Possible acquisition

Hi Rasim,

Alexandra Brito, one of my senior managers, has discovered that Hevlyft, a private company that specialises in the transportation of oversized loads, could be available for purchase. Fahmi Sjafrin, Hevlyft's founder and sole shareholder, plans to retire within the next few years and could be persuaded to sell.

Hevlyft was one of Daistruk's strongest competitors when Roundland's existing windfarms were being built. Hevlyft won 40% of the contracts to transport turbines compared to Daistruk's 20%.

Hevlyft always bids aggressively for contracts to move any oversized loads by road. Daistruk occasionally wins contracts on the basis of cost, but Hevlyft has the latest equipment and the most experienced drivers and so can argue that they are the best qualified in this market.

If we purchase Hevlyft, then we will be in a very strong position to bid for the contracts that will be awarded soon to transport the wind turbines for the windfarms that Roundland's power generators will start to build in the near future.

Doreen

Reference Material

Pre-seen

Draft your response to Rasim's requests in the box below.

From: Senior Finance Manager

To: Rasim Hamid, Chief Finance Officer

Subject: FWD: RE: Possible acquisition



Reference Material

Pre-seen

Six months have passed. Hevlyft was acquired as a 100% member of the Daistruk Group 3 months ago.

You receive the following email:

From: Rasim Hamid, Chief Finance Officer

To: Senior Finance Manager

Subject: FWD: Problems at Hevlyft

Hello,

I am forwarding an email that I received from the Chief Operating Officer.

I am interested in your opinion on two matters:

- First, evaluate the arguments for appointing a risk manager at Hevlyft and recommend the matters that a risk manager should be responsible for.

[sub-task (a) = 50%]

- Second, evaluate the arguments for and against the dismissal of Lisa Adkins in light of this internal audit report and explain how her dismissal might affect the control environment at Hevlyft.

[sub-task (b) = 50%]

Rasim

The email referred to by Rasim can be viewed by clicking the Reference Material button above.

From: Doreen Sumpat, Chief Operating Officer
To: Rasim Hamid, Chief Finance Officer
Subject: Problems at Hevlylft

Hi Rasim,

As you know, Lisa Adkins was Hevlylft's Chief Operating Officer when the company operated independently. When we purchased Hevlylft as a going concern, Lisa was promoted to Daistruk's Board as Director for Special Loads. Hevlylft has been permitted to carry on as before, under Lisa's leadership. Lisa reports to the Daistruk Board on all matters relating to the Hevlylft subsidiary.

I asked Daistruk's Internal Audit Department carry out an investigation into operations at Hevlylft. I was concerned by some of their findings:

- Truck drivers admit that they often carry loads that exceed the legal limits in terms of size and weight. They argue that they have extensive experience of driving oversized loads and know whether it is safe to exceed the maximum.
- Trucks occasionally operate without an attendant to sit in the cab and advise the driver. Again, drivers claim that their experience enables them to drive safely without attendants if none are available due to, say, ill health. They point out that clients will be unhappy if loads are delayed because of staff shortages.
- Truck drivers are required to conduct walkaround tests to look for faults in their vehicles before each departure. Drivers failed to conduct such inspections on several occasions during the audit visit. When asked, drivers argued that heavy goods vehicles are fitted with sensors that would trigger warning lights in the event of, say, a flat tyre or a leak in a hydraulic brake pipe.

Hevlylft has a very small management team. Lisa is effectively in direct charge of operations.

Doreen

Reference Material

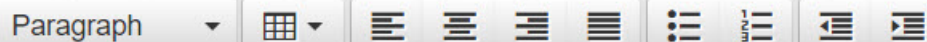
Pre-seen

Draft your response to Rasim's requests in the box below.

From: Senior Finance Manager

To: Rasim Hamid, Chief Finance Officer

Subject: FWD: RE: Problems at Hevlyft





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

May & August 2023

EXAM ANSWERS

Variant 1

These answers have been provided by CIMA® for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.

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

SECTION 1

Requirement 1 – stakeholders

The protesters have declared an interest in the environmental impact of the logistics industry, which makes them stakeholders regardless of whether Daistruk chooses to recognise them as such. Refusing to engage with the protesters could strengthen their argument that logistics companies behave irresponsibly, so it may be better to recognise their interest and agree to work with them. It could be to Daistruk's advantage to make some immediate concessions in response to the protests so that the protesters focus more on rival logistics companies. Recognising the protesters as stakeholders would also demonstrate that Daistruk accepts responsibility for the environmental damage that could be caused by its activities. Accepting responsibility and taking meaningful steps to address the issues could reduce the risk that public opinion will turn against logistics companies in general and Daistruk in particular.

It is possible that recognising the protesters as stakeholders will add legitimacy to any claims that they make against Daistruk. The logistics industry benefits society through the distribution of vital goods, including food and medicine, even if it does cause some environmental damage. Treating these protesters as stakeholders could encourage them to claim that they are entitled to speak on behalf of society as a whole with regard to the costs and benefits associated with road transport. Engaging with the protesters as stakeholders will not necessarily result in any meaningful dialogue, given that they are already taking direct action and so appear to have made their minds up. It is unlikely that there will be any possibility of a meaningful compromise between Daistruk and the protesters. The protesters are intent on stopping road transport, which is

unlikely to be a practical proposition. Even if Daistruk could negotiate a settlement with the leaders of the protest movement, perhaps by making greater use of rail in place of trucks, there could be significant numbers who will still aim to disrupt operations.

In terms of Mendelow's power/interest matrix, the protesters have demonstrated a high interest because they are willing to break the law and take personal risks by blocking roads. This commitment should be taken into account in managing this relationship because it is unlikely that Daistruk will be able to dissuade or discourage the protesters. The fact that the protesters must take such direct action implies that they have relatively low power. They clearly do not have the financial or political might to seek a change in the law through democratic processes. Daistruk and the other companies in the logistics industry can call upon much more in the way of resources to protect their operations. It may be possible to seek the support of the police service or the courts to deal with the fact that it is against the law to block roads.

Daistruk should be careful when using the resources at its disposal because the most effective strategy for the protesters would be to mobilise the voting power of society at large to bring about political change. If Daistruk and other large logistics companies are seen to be bullying the protesters, then voters might elect politicians who take an active interest in protecting the environment and who might enact legislation that would be harmful to the logistics companies. Daistruk should take care not to appear as if it is bullying the protesters by, for example, seeking court injunctions to prevent them from protesting. It would be preferable for Daistruk to promote its own message, such as its intentions to improve the fuel efficiency of its trucks or its plans to make greater use of rail transport. It may also be possible to undermine the impact of the protests by highlighting their impact on road users, holding up parents attempting to take their children to school and so on.

Requirement 2 – Risk register

The risk register should designate a senior manager who will be responsible for the ownership of this risk, perhaps a senior manager who is responsible for truck operations. The owner of this risk should ensure that Daistruk has staff who are monitoring information sources such as social media, protest group websites and news channels to ensure that the company is aware of protests as quickly as possible. Information about road blockages should be communicated to drivers as quickly as possible, ideally in time for trucks to change their routes and avoid the protest. If necessary, the management team should ensure that clients will be informed of any delays so that they can adjust their plans.

All of Daistruk's drivers should receive training to be followed in the event that they are caught up in a road blockage. The Transportation Department should set out procedures in consultation with the police and other authorities to ensure that drivers do not endanger themselves or the protestors while taking all possible steps to protect their trucks and any loads that are being carried. Formal training should be provided to ensure that all drivers are aware of the procedures and understand them. It is

important that Daistruk can demonstrate that it had suitable procedures in place in case there is an injury or damage to property involving one of its trucks.

The risk register should be kept up to date in response to changes in the tactics employed by the protesters. There is no reason to expect them to be consistent in their actions. The managers responsible for managing this risk should consider the possible tactics that the protesters might employ in order to escalate their actions, such as blocking open roads rather than entrances to warehouses. The register should be reviewed in response to each incident as it occurs in order to check that the guidance that has been provided to drivers and other relevant members of staff remains up to date. The procedures should be included in the agenda for Board meetings for the duration of the protest action, to ensure that they receive the attention that it requires.

SECTION 2

Requirement 1 – vision

Vision statements represent long-term aspirations. Daistruk has defined its aspirations in terms of stakeholder interests. The problem is that the long-term implications are both unclear and potentially contradictory.

Daistruk's shareholders will be affected by the increased operating costs associated with the switch to rail services. Presumably, that could lead to a decrease in their wealth. It is important to determine the long-term implications of this switch for the company's profits. There would have to be a long-term benefit to compensate for this increased cost for the shareholders to benefit. The fact that logistics companies are being criticised for their damaging environmental impact suggests that a switch to rail could benefit the company by protecting revenues in the longer term. The commercial assumptions underlying the use of rail should be extended into the medium to long term in order to assist the shareholders decide whether this move would benefit them.

Daistruk's clients could find themselves forced to pay more for their logistical services if prices rise if transport prices are increased in order to recover the additional operating costs. Clients may be willing to accept those increases in order to promote their own operations as being more sustainable through a reduced reliance on road transport. There could be an indirect cost to society as a whole because some of Daistruk's clients are retailers and they may pass on any additional transport cost to their customers. This change could lead to an increase in the cost of food.

The environmental protesters have been arguing for a reduction in the use of road transportation, so they should regard this switch as beneficial. Replacing 800 trucks with 11 locomotives should reduce the carbon emissions associated with transporting goods. It could be difficult to determine whether there is a net environmental benefit from this switch. For example, there will be a significant number of short journeys from rail terminals to the final destinations of goods. There will also be significant activity in transferring goods between road and rail transport, which could offset some of the savings in emissions. The fact that Daistruk is selling the trucks that it will replace means that there could be additional road transportation through the use of those trucks.

Daistruk's employees could face significant redundancies because of this switch. Replacing 800 trucks with 11 locomotives suggests that fewer drivers will be required. It is possible that new jobs will be created at rail terminals, but that could leave drivers faced with a choice between redundancy and having to move home. The new jobs at rail terminals may also be less skilled than driving HGVs and so the pay could be reduced. Again, this could be a short-term concern. In the longer term, the need to reduce emissions could lead to a reduction in the number of vehicles on the roads in any case.

Requirement 2 – funding

Daistruk's gearing ratio is already $280/(280+428) = 40\%$, which is not especially high, although existing debt is equivalent to $280/530 = 53\%$ of the company's tangible assets. There may be limited capacity to secure additional loans against existing assets. The intention is to invest heavily in new assets, but these are specialised in nature. There is unlikely to be a great deal of demand for specialised railway running stock and associated loading equipment and the software is likely to be written for Daistruk's specific needs so it will have little or no market value. Borrowing an additional R\$110 million will increase gearing to $(280+110)/(280+110+428) = 48\%$, which is a significant increase and may make prospective lenders quite nervous. The fact that Daistruk may be unable to offer meaningful security for these new loans could discourage lenders still further, with high-interest rates on any additional borrowings. Increasing gearing to 48% could lead to Daistruk exceeding borrowing limits imposed by existing lenders, giving those lenders the right to foreclose on their loans and demand immediate repayment.

The cost of debt is affected by the availability of tax relief on the interest, which may be an issue for Daistruk. This investment will reduce profits because both operating costs and borrowing costs will increase. If the 7% increase in operating costs applied across the whole company, then they would rise to R\$1,980 million, which would almost eliminate operating profit. Borrowing costs are likely to increase by at least $110/280 \times 14 = \text{R}\5.5 million, again significantly reducing taxable profit. The Board should take care to forecast performance to ensure that tax relief is available on the additional borrowings, otherwise the cost of debt will increase.

Given the problems associated with debt, it seems likely that Daistruk will have to raise the funding by issuing equity. Using equity will reduce the gearing ratio to $280/(280+110+428) = 34\%$, which will reduce the volatility of Daistruk's return on equity. Reducing gearing will create the capacity to raise funds through borrowing in the future, which could allow for greater flexibility in case the company runs into difficulty in the future. The reduction in gearing will reduce Daistruk's beta, which will reduce the cost of equity slightly. The move from road to rail is likely to be a negative net present value project and so reducing the cost of equity could offset some of the loss in market capitalisation.

The switch from road to rail is clearly not a commercially desirable development in the short term. It will reduce profits and probably market capitalisation. The process of raising equity will assist the Board in communicating the reasons for this switch to the shareholders. It may not be entirely clear whether Daistruk is switching to rail because of social pressure from environmental campaigners or whether there is a commercial justification that will be apparent in the longer term. A rights issue will require the issue to be made at a significant discount from the current market price, but the Board's reasons for doing so will have to be explained in detail. Any long-term commercial justification for this move will be described in detail during the course of the issue, which may reassure the shareholders that their additional investment is actually in their long-term interests.

SECTION 3

Requirement 1 – sustainable business

The principle of integrity requires Daistruk to be straightforward and honest in its relationships. It could be argued that the statements made in relation to the three goals are correct in themselves and so reflect well on the company's integrity. There can be no doubt that greater use of rail will reduce road congestion and decrease emissions. Unfortunately, Daistruk also claims that it is an enthusiastic supporter of the SDG, which is clearly not the case if the changes that are being made have been imposed from outside. Claiming to be an enthusiastic supporter of the goals could affect the attitude of the stakeholders who read this report. They may subject Daistruk to less scrutiny.

Some of the claims being made lack objectivity because they are biased in order to win favour from protesters. Daistruk claims that its use of rail will encourage the development of sustainable infrastructure, but there is no logical basis for such a claim. The switch to rail has changed the way in which Daistruk moves some goods, but change will not have sufficient impact to create a material change in the manner in which businesses operate. It would be a massive undertaking for railway companies to build additional railway lines to handle more freight.

It could also be argued that Daistruk's claims breach the principle of professional behaviour because they could be misleading and could discredit the company's environmental credentials. There could be double counting of the savings in emissions if both the logistics company and its clients claim to be making greater use of rail transportation in order to reduce environmental damage. It is also debatable whether Daistruk should encourage clients to claim to be more environmentally aware when it is replacing trucks with trains. Clients will have little say in the mode of transport used. Stakeholders may view this statement as cynical and could believe that it undermines Daistruk's credibility.

Requirement 2 – board committee

Creating a sustainability committee sends a very clear signal that Daistruk takes environmental matters very seriously. Stakeholders with an interest in that area will, hopefully, be reassured by the fact that there is a committee, whose remit will be made clear in Daistruk's governance disclosures. The committee members will take this responsibility seriously because their reputations will be at stake and so there should be less likelihood that Daistruk will cause avoidable damage. Non-executives have no financial incentive to maximise profit or to behave recklessly with regard to environmental matters. Daistruk's non-executives include an engineer and two members who have had significant transport-related government service, so they should be well qualified to oversee the company's sustainability. Giving such directors a specific remit for sustainability will ensure that they are consulted and informed on decisions that could prove harmful.

A sustainability committee would be particularly useful with regard to reports and other disclosures made to stakeholders. While there are helpful standards relating to environmental reports, companies still have a great deal of discretion over what they report and how they describe matters. Giving non-executives specific responsibility to review those reports before publication will enhance the quality of the information and will make reports more credible. Improving reporting will also have a beneficial impact on behaviour because the Board as a whole will be aware that their strategic decisions may affect the disclosures in the sustainability report. Additional transparency should also reduce the threats arising from protesters and other activists, who may use any lack of disclosure as an excuse to criticise Daistruk's performance.

Creating a sustainability committee could create friction between the executive and non-executive directors over operational matters. Daistruk's operations will always result in damage to the environment through consumption of scarce resources and carbon emissions. If the new committee simply monitors such damage, then it may be viewed as a failure. If the sustainability committee takes a proactive role, then the executive directors might complain they are unable to fully pursue strategies that maximise shareholder wealth. As a compromise, the Board could develop policies that are intended to reconcile the conflict between sustainability and profitability. For example, ensuring that trucks are well maintained so that they are fuel efficient. The committee would become somewhat redundant once such policies were in place because they would simply require compliance from senior managers and the Board as a whole.

The creation of a new Board committee will add to the workloads of the non-executives, who are already required to service four committees. Each of the non-executives is a member of three committees and asking some to participate in a fourth could lead to them being overstretched and unable to fulfil their duties properly. It might be possible to recruit additional non-executives, but that would create additional work for the nomination committee and would require additional time to provide the newly-appointed directors with adequate induction. It could be more efficient to make sustainability a regular agenda item for Board meetings and also, where relevant, for meetings of the risk committee and the audit committee. That would ensure that the whole Board was engaged and that there was some oversight from non-executives.

STRATEGIC CASE STUDY

May & August 2023

EXAM ANSWERS

Variant 2

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SECTION 1

Requirement 1 – scenario planning

A significant decrease in truck operating costs would reduce the potential benefits of investing in the development of these containers because it would offset Daistruk's advantage over rival logistics companies. If trucks are cheaper to operate, then it will cost rivals less to run the additional trucks and trains that they will require in comparison to Daistruk.

Daistruk should evaluate this scenario carefully as follows:

It is important to determine the impact that the decrease will have on the operating costs of trucks and trains both in terms of extent and persistence. There are various individual running costs, such as fuel, drivers' wages and wear and tear on vehicles and equipment, any of which could increase suddenly. The overall impact on Daistruk's cost advantage may not be particularly great in the medium term.

Even if the impact would be significant, Daistruk will have to consider the persistence of any change in fuel prices. The price of commodities such as oil can be volatile. Market forces could fall and then recover or even rise significantly over the next few months. Daistruk will have to evaluate the validity of the forecasts at its disposal with regard to the price of fuel.

Daistruk's more efficient use of fuel is not just a financial benefit. Using less fuel also reduces the emissions associated with carrying grain. Clients may prefer to be associated with logistics companies that cause lower emissions when they transport

goods, and so the benefit of the new container may persist even if the cost advantage does not.

There is always the possibility that any technological advantage over rivals will be short-lived because other logistics companies will be working constantly to enhance their own competitive position. It would be difficult for Daistruk to predict the likelihood that other logistics companies will be able to match or exceed the improved capacity of these shipping containers. The Board could consider the possibility that rivals may announce their own plans in response to Daistruk's announcement concerning its own successful prototype.

The Board should also consider the likelihood that rivals will be able to copy Daistruk's design, either now or shortly after the containers come into service. If the features that lead to the enhanced capacity can be protected by patents, then a competitor would have to develop their own improvements, which could prove difficult. If the features cannot be patented, then it will simply be a matter of copying the design of Daistruk's container and reverse engineering its manufacture.

The Board should also consider the relevance of a rival launching its own improved container. If other logistics companies have their own design projects underway, then Daistruk may have little choice but to proceed with their own container if they are to remain competitive. It would also be difficult to remain credible after announcing the launch of a new product if that product does not materialise. Again, that could suggest that Daistruk will not benefit from scenario planning.

Requirement 2 – covenants

Daistruk should not, under any circumstances, breach its debt covenants without first obtaining the permission of the lenders who imposed those covenants. The lenders would have the right to demand immediate repayment of their loans in that case, which would put them in a position to seize the company's assets and, in all probability, to put the company out of business. The only possibility would be for Daistruk to argue that it would not be in the lenders' best interests to enforce their rights, either because of the adverse publicity associated with closing down the company or because Daistruk's assets would be difficult to liquidate for much more than a fraction of the liability that is to be recovered.

If Daistruk decides to borrow an additional R\$40 million, then the first thing to do would be to approach the existing lenders and seek their permission. This would require a formal contract that confirms the lenders' willingness to increase the threshold for the acceptable gearing ratio. Gearing was 40% in 2021, which suggests that the company has been operating close to its limit for some time, so it could be argued that Daistruk is able to cope with a higher gearing ratio.

Daistruk's Board would have to offer the lenders an incentive for relaxing the covenant because it would be unrealistic to expect the lenders to agree to a change that increases the risk that they face with regard to the loan. It could be sufficient to argue that the investment will yield net cash inflows and will increase equity, both of which will reduce the risk of late or missed payments. Alternatively, Daistruk could

offer the lender additional safeguards in the form of additional security for the loan, perhaps by means of a charge against property or some other valuable asset.

As an alternative, Daistruk could attempt to restructure its borrowings by taking out a new loan that would enable it to repay its existing debt and fund the investment in the new shipping container. Doing so would enable the company to negotiate a loan that did not impose a covenant or had a covenant that was less likely to put Daistruk in breach. Ideally, Daistruk will be able to provide projections for the completion of the new shipping container design and the associated business that it will bring into the company. Potential lenders may be prepared to support Daistruk in order to make a sizeable loan to a company that appears to be low risk.

It may be possible for Daistruk to use the threat of repaying the original loan as a bargaining point in its dealings with the original lender, who may be keen to avoid the loss of interest from an early repayment. It may be that the lender would be prepared to restructure its existing loan, removing or increasing the restriction on gearing. Negotiation with the existing lender may also mean that Daistruk would be excused any penalties for early repayment that the lender would be entitled to under the terms of the existing loan agreement.

SECTION 2

Requirement 1 – currency

Dastruk faces economic currency risks. It will be affected by the impact that this strengthening will have on its clients' need for logistical support. If it costs more to import goods from Northland, then some clients may reduce the quantities that they purchase and so will require less in the way of transport from Roundland's seaports. That may not necessarily be the case because it would be prudent for them to have hedged against such a currency movement so that they were not fully exposed to such a revaluation. If the concern that the N\$ will remain strong proves valid, then clients may be forced to bear the additional cost of raw materials and demand for logistics services will recover, and so the damage to Dastruk's revenue could prove short-term. Dastruk's fuel costs will rise if the price of oil increases due to the stronger N\$. However, oil is a global commodity and Northland is not the only oil-producing country, so it is unlikely that the price of fuel will increase in line with the N\$. Overall, Dastruk should accept any decrease in demand or any increase in fuel prices in the short term. It is reasonable to expect some recovery as Roundland's economy settles down.

The fact that the N\$ is strong could boost exports because the currency change will make it cheaper for Northlandian buyers to buy goods from Roundland. Hopefully, that will mean that there will be more business for logistics companies, including Dastruk, because manufactured goods will have to be transported to seaports in order to export them to Northland. Dastruk should identify industries that will benefit from the strong N\$ and should move quickly to win their business. For example, Northland imports electronics and antibiotics, both of which are high-value items that need secure shipment. Dastruk should make whatever changes are necessary to expand its capacity for secure shipping and should move quickly to win shipping contracts. Dastruk should also identify industries that will continue to import goods despite the strong N\$. For example, vehicle and aircraft manufacturers may increase their volumes of imports in order to satisfy additional orders from Roundland. Dastruk could win additional business in shipping, for example, imported car engines from seaports to car factories and completed cars to seaports for export to Roundland.

Regardless of the strength of the N\$, the new shipping container will reduce the costs to transport imported wheat from the seaports to the factories that make flour and produce bread and other food. The fact that the raw materials will be more expensive could actually enhance the competitive advantage that the shipping container will create and so development probably should continue. Arguably, the currency movement may have very little impact on the demand for wheat, given that it is a staple food. Demand for bread and baked goods is likely to be highly inelastic and so customers will simply pay more, leaving Dastruk's revenues unaffected. There may be a concern about the cost of capital for this project because exchange rates can have an impact on other economic variables. Roundland's government could attempt to reverse the decline in the R\$ in comparison to that of a major trading partner and that could lead to an increase in interest rates in order to attract deposits in R\$. If the cost of debt increases, then the required rate of return on the shipping container project could also increase and that could reduce the net present value.

Requirement 2 – risk register

There would be relatively little point in including short-term fluctuations in particular currencies in the risk register because the treasury function should already be managing any transaction risks that Daistruk faces. Treasury should decide whether it is necessary to hedge any foreign currency balances on a case-by-case basis. It may be helpful to include a reference to the management of transaction risks in the risk register as a reminder to all managers to seek advice from treasury before committing to a transaction in a foreign currency. There would be no need to include a reference to individual currencies when referring to transaction risks. A generic statement is less likely to be misunderstood.

There is very little point in listing individual currencies that could be the source of economic risk in the event of a long-term movement because such exposures could be very difficult to identify. For example, clients in a particular industry might have contingency plans to move production overseas in response to a particular currency movement. It is unlikely that Daistruk would be aware of such plans and so could not predict the risks associated with particular currency movements. Daistruk has a diversified portfolio of clients and that is probably the only realistic response to the economic risks that it faces. Long-term currency movements are also difficult to predict and so it may distract managers to make them responsible for monitoring this type of risk.

Rather than listing specific currencies that might affect Daistruk, it would be far more relevant and helpful to identify specific costs that could be affected by currency movements. For example, if Daistruk imports its vehicles then the cost of replacement could be affected by a weakening of the R\$. It would be easier to identify that risk and to mitigate it. Identifying such specific risks in the risk register could ensure that responsibilities for management and mitigation are clearly shared between relevant decision makers. It may be necessary for road transport managers to be aware that the timing of the replacement of vehicles could affect the cost of replacement and it would be ideal to ensure that they work with finance managers.

SECTION 3

Requirement 1 – ethical arguments

It could be argued that releasing the drawings would be a breach of the principle of confidentiality. Arguably, the designs belong to Daistruk and its shareholders and they have a commercial value. It would be unethical for the Board to permit the drawings to be used by rivals, unless there was a sound commercial reason for doing so. There would be no ethical problem associated with the Board selling this intellectual property in return for a realistic sum that reflects its value, including the possible lost cost advantage. Rival logistics companies have no ethical right to request confidential information from Daistruk unless they are willing to offer acceptable compensation in return for access.

The vision statement could be interpreted in accordance with the principle of objectivity. It could be argued that the wording of the vision statement makes no commitment to share these drawings with rivals. The commitment to having a positive impact on all stakeholders is qualified by the fact that this will be accomplished through the provision of strategies and services. Daistruk is clearly committing itself to providing its clients with logistical services and support in a manner that is sustainable. Requiring Daistruk to share this design without reward would require the vision statement to be read and applied in a very biased and unrealistic manner.

Refusing to share this technology could be viewed as a breach of professional behaviour. Rivals could criticise Daistruk's claim to be sustainable. Alternatively, it could be argued that Daistruk has behaved responsibly by developing the new container and manufacturing 200 units. This project exposed Daistruk to significant financial risk and so it is entitled to enjoy the benefits. It could be argued that much of the responsibility for reducing emissions and congestion now falls to clients, who have to choose between Daistruk and its rivals.

Requirement 2 – internal audit

Internal Audit should begin by identifying the ways in which this intellectual property might be vulnerable. That is an important consideration in controlling access. Ms Sumpat should be asked to explain why the only threat would be through access to the technical drawings. Presumably, the containers themselves will be accessible to third parties who have access to seaports and clients' factories. Internal Audit needs to check whether it would be possible to copy the design through observation or from taking measurements of internal and external dimensions. If there is a risk that the design can be reverse engineered, then Internal Audit should investigate whether there are any key features that can be protected by patents. If the design features are visible and cannot be patented, then Internal Audit may simply recommend that there is little point in proceeding further with safeguarding the intellectual property.

Internal Audit should determine who had access to the designs while they were under development. That could include members of the technical staff who were not directly involved in the project but who worked in the same workspace as the design team or

who participated in conversations about design challenges and progress. Internal Audit should ensure that all relevant staff have been briefed on the commercial importance of this design and the need for secrecy. It may be counterproductive to threaten staff with sanctions, but it may be possible to offer the design team bonuses in recognition of their service and it may be possible to incorporate a non-disclosure agreement into the documentation in support of that bonus. Internal Audit should also recommend that the designers should not be named publicly to make it more difficult for rivals to contact them and offer them highly-paid jobs in order to lure them.

Internal Audit should establish the location of all physical and electronic documents relating to the design work. Given that the design work has been completed, these materials should be collected and placed in a secure location. Access to the documents should require authorisation from the Chief Operating Officer. Files should be encrypted and stored on a drive or a cloud-based service that has the latest security software in place. All files on the design team's computers should be deleted using security software that overwrites storage space in order to prevent the files' recovery.

The non-disclosure agreement signed by the manufacturer should be reviewed by a lawyer with expertise in the protection of intellectual property. It is probably too late to modify this document now that the work has been completed, but Internal Audit should conduct a review in any case to identify the risks associated with non-compliance. For example, it would be ideal if the penalties that will be imposed in the event of any unauthorised disclosure were severe. Internal Audit should ask the manufacturer for written confirmation that all files belonging to Daistruk have been deleted. Internal Audit should recover any moulds or jigs or other items used in the manufacture of the containers so that they can be stored securely in a location controlled by Daistruk.

STRATEGIC CASE STUDY

May & August 2023

EXAM ANSWERS

Variant 3

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SECTION 1

Requirement 1 – proposed acquisition

This investment should be suitable because it offers the opportunity to expand existing facilities, which appear to be running out of capacity. In the short term, the Rayltray port can be used to facilitate intermodal transfers of shipping containers between trucks and trains, relieving some of the pressure on the existing port in the north of Roundland. The increased capacity will help to achieve Daistruk's vision of providing sustainable supply chain strategies and services because the additional intermodal capacity will enable greater use of rail for freight. The acquisition of an operational inland port is an ideal way to expand in these areas because it could be difficult to create a new inland port that has the necessary access to both road and rail networks. If Daistruk does not acquire Rayltray, then there is a risk that a rival logistics company will buy it, develop it and use the facility to compete for Daistruk's clients who are based in the north of the country. Rayltray's inland port is less versatile than those currently owned by Daistruk, however, there is scope for development. The land owned by Rayltray could be used to create storage space or to add a new function, such as handling bulk goods.

The acceptability of this investment really depends on the impact that it will have for shareholders' risks and returns. The fact that this is a direct expansion of the existing business suggests that the shareholders could be supportive. The most important issue is the cost of the acquisition. If the Board overpays, then they will dilute shareholder return. It seems likely that Daistruk would be able to negotiate a reasonable price. This is a small facility that requires upgrading. It is an unquoted

company that may struggle to raise the necessary finance to upgrade the facility on its own. The availability of both road and rail links makes the site attractive to logistics companies, but there may not be many other potential buyers who would pay a premium for such links. Having said that, Caree pays to use Rayltray's facilities and so might be willing to bid against Daistruk, potentially pushing up the price. Even so, the fact that Caree and other companies pay for this service at present indicates that they are short of capacity and so there could be a commercial advantage to Daistruk if it proceeds with the acquisition.

The feasibility of this acquisition depends on the question of whether Daistruk can make effective use of Rayltray's inland port. The most immediate concern is that Rayltray is only 70 kilometres from Daistruk's existing inland port in the north. That could complicate the scheduling of intermodal transfers because the two facilities are so close to one another. It may be difficult to ensure that trains are not loading or unloading parts of their loads at the northern inland port before travelling the short distance to Rayltray to complete that operation. If Daistruk is attracted by the availability of undeveloped land at the new site, then it will have to check that it will be free to conduct any required development. The fact that Rayltray has left the site undeveloped suggests that there could be a problem with the site or there could be difficulties in obtaining the necessary permission. This could be an expensive acquisition and Daistruk may find it difficult to secure the funding in time to make the purchase while the opportunity remains open.

Requirement 2 – post-acquisition problems

Acquisitions generally create difficulties in successfully integrating the new company into the group. For example, systems often create problems. In this case, adding a third inland port could put a strain on Daistruk's IT systems. Extending the IT system to Rayltray could be difficult because it uses different equipment and is subject to different operational constraints because of a lack of space for storage. It may require expensive upgrading to adapt the software to support operations at Rayltray. In time, Rayltray might then be developed and that could require further adaptation. The consequences of any bugs in the new system could be serious because they could lead to problems with the handling and location of shipping containers full of heavy and/or expensive goods.

Rayltray's staff could be nervous that they might lose their jobs due to rationalisation after Daistruk takes over. That could lead the lifting equipment operators to leave for new jobs that they regard as more secure. It may be difficult to find skilled replacements and so Daistruk may struggle to keep the inland port in operation. It may then be necessary to replace the equipment sooner than had been planned, which could lead to additional cost if the purchase has to be expedited. Modern lifting equipment might not be suited to the layout at Rayltray, which could further accelerate developments and reduce the opportunity for sensible planning and timetabling.

Rayltray will continue as a legal entity even if it becomes part of the Daistruk Group. The contracts with Caree and other logistics companies will remain in place unless they are broken by the mutual consent of the parties, which may be difficult to obtain if there are no suitable alternatives available to them. That could mean that Rayltray

has limited capacity to serve the Group's needs if the contracts entitle these competitors to demand service. The need to serve these competitors could also affect Daistruk's ability to expand or modify Rayltray, unless any modifications can be scheduled so that operations are not disrupted.

SECTION 2

Requirement 1 – raising finance

The three funding issues are worth a total of $75 + 40 + 60 = \text{R}\$175$ million, which is $175/(428+280) = 25\%$ of capital employed. This is such a significant amount that it would almost certainly be logical for the three sums to be considered separately because it may be inefficient to raise the total amount using either debt or equity.

The easiest way to raise the R\$75 million for the equity in Rayltray would be to offer to exchange Daistruk shares for their shares in Rayltray. Using equity for this transaction would be helpful because it would reduce gearing from $280/(280+428) = 40\%$ to $280/(280+428+75) = 36\%$. That reduction would give Daistruk a little more scope for seeking additional debt, either for the current project or for future developments. Given that Rayltray is unquoted, its shareholders might find an exchange of shares to be potentially attractive. They will either be able to retain their stake in the expanded Daistruk Group or they will be able to sell their shares for cash. The selling price has already been agreed and Daistruk's share price can be observed on the market so the exchange should be relatively easy to negotiate. It will be easier to make a share exchange than to raise cash through a rights issue to Daistruk's existing shareholders, which could lead to increased issue costs including underwriting. Rayltray's shareholders can each sign a contract committing themselves to the exchange and the new shares can then be issued in exchange.

The R\$40 million debt owed by Rayltray will become a liability of the Daistruk Group post-acquisition. That leaves Daistruk with a decision as to whether it should leave the liability in place or whether it would be preferable to raise funds in order to repay the debt. The simpler of those alternatives would be to leave the debt in place and service the loan in accordance with the loan agreement. Alternatively, it may prove more convenient and better value to repay the loan, even if that involves taking out a replacement. It may be cheaper for the Daistruk Group, which is larger and quoted, to borrow R\$40 million than it was for Rayltray. The fact that the loan is secured against Rayltray's land could also interfere with any plans to develop the property. The lender might insist on being consulted and could refuse permission. It may also be easier for the Group as a whole to manage any restrictive covenants placed on the loan than it would be for the subsidiary to do so.

The biggest challenge associated with the R\$60 million for the construction work is the possibility that the construction work will not be permitted. That creates a dilemma because Daistruk's Board may be keen to proceed with raising funds so that construction work can commence as quickly as possible if and when permission is granted. One possibility would be to negotiate a contingency, whereby a lender agrees to make the loan, but the funds will only be drawn down at Daistruk's discretion. That would effectively give Daistruk an option to proceed with the loan if it requires the finance, but would avoid the cost of servicing the loan if the permission to develop is not granted. Most lenders would require a payment for processing the loan application and for creating the loan facility, but it may still be worthwhile to make the application on this basis because it reduces risk. The fact that the land is already being used as collateral for Rayltray's borrowing suggests that it might be possible to

secure this additional loan against the Rayltray site, which will hopefully be of greater value once it has been developed. Raising a single loan for R\$100 million, with R\$40 million to repay Rayltray's loan and R\$60 million to be contingent on the planning application would make it easier to offer such security.

Requirement 2 – management skills

Retaining the services of Rayltray's management team for such a long time could imply a lack of confidence on the part of Daistruk's Board, although it does not necessarily follow that Daistruk lacks the necessary management skills. The Daistruk Group has acquired skills and experience from the ownership and management of two inland ports and so it should be capable of taking responsibility for Rayltray's facility without the extended handover that is planned. Acquisitions can prove difficult because of cultural differences between the target company and its new parent, but it should be possible for Daistruk to identify and resolve any such differences in a much shorter period. It may be, however, that Daistruk wishes to send a reassuring message to Rayltray's workforce that no major changes are foreseen that could threaten their employment.

Daistruk has a clear need to reassure the rail network that Rayltray can be trusted to expand its rail operations without causing any problems for the main line. One aspect of that would be to avoid any mistakes in managing rail services through Rayltray in the period immediately after the acquisition. Retaining the existing management team will reduce that risk. The Rayltray managers should also be able to inform any negotiations with the rail network about the implications of an expansion. They are familiar with that part of the network and the problems that can arise. There is no real cost associated with obtaining these potential benefits because Daistruk would need to have a management team in place in any case. Replacing the existing managers would not necessarily yield any benefits.

Daistruk plans to expand Rayltray to provide for storage as well as intermodal services. It would be convenient to be able to retain Rayltray's senior management team, at least temporarily. The existing managers can, hopefully, ensure that the existing business continues without too much disruption. Their experience will help them to predict problems that might arise at different stages in the construction programme. Daistruk can then appoint additional managers to oversee the new construction and to set up the new services, without them being distracted by running the continuing business. As the expansion is completed, it will be possible for Daistruk to identify the managers whom they wish to retain and those managers will be able to make an informed decision as to whether they wish to stay.

SECTION 3

Requirement 1 – risks

The lack of designated safety officers could lead the Roundland Safety Inspectorate to impose penalties, including fines and even the closure of the site until the matter is rectified. There is a high likelihood that they will do so, unless the matter is dealt with, and the impact could be significant if a negative safety report affects Daistruk's ability to obtain insurance cover.

Safety officers are responsible for receiving reports on safety concerns and passing those on for action. This role need not distract from existing duties. Arguably, a location like Rayltray should have a safety officer on duty in each area when operations are in progress because there are many safety hazards due to train and vehicle movements and the operation of heavy equipment.

The General Manager may not be a suitable person to act as safety officer because staff may be unwilling to report some concerns to such a senior colleague. For example, safety concerns associated with reckless behaviour by a fellow worker could result in disciplinary action.

There is hopefully a low probability that an untrained operator will take charge of one of Rayltray's forklifts. The probability of an accident is even lower, provided the operator drives carefully. The impact of an accident could be severe. A collision could cause serious injury and could also damage a valuable load.

The fact that Daistruk cannot always provide evidence that an operator had completed the required training could make the financial consequences of any accident far more serious. Daistruk could be sued for negligence and its insurers could refuse to settle any claim.

It is clearly unacceptable for forklift operators to self-certify that they have completed formal training because unqualified operators clearly have a financial incentive to lie in order to enter paid employment. Rayltray should insist that any applicant for an operator's post has the necessary training. If they do not have a certificate, then they should be required to complete a course, which will enable them to obtain a new certificate upon completion.

There is a high probability that Rayltray's forklifts will develop mechanical defects if they are not properly maintained. Some defects may not become apparent until an accident occurs. Defects could create high impact risks for Rayltray because forklifts are used to carry heavy loads and will have significant momentum when in operation.

If a serious accident occurs, then the discovery that the forklift was defective will leave Rayltray in a difficult position with respect to defending any action. The fact that there is no evidence that forklifts are being checked by competent mechanics could lead to Rayltray being prosecuted on the basis that it endangered operators' safety. Operators are not qualified to check the safety of their forklifts. They may also be unwilling to report problems because that could delay the completion of tasks and so might reflect on their competence.

Requirement 2 – internal audit

Internal audit should start by obtaining a copy of Rayltray's safety procedures document so that they can identify the procedures that staff should be following, in the event that Daistruk's procedures have not been circulated. The audit team should carry out a detailed comparison of the Rayltray and Daistruk safety procedures in order to identify any differences. If Daistruk's requirements differ in any way from Rayltray's, then those are the areas in which Rayltray is most likely to be non-compliant. The audit team should start by visiting Rayltray and meeting with supervisors to ask about safety procedures and the manner in which formal requirements are implemented in their areas. These meetings should be informal and should consist of structured conversations in which the audit staff ask supervisors and operations staff open-ended questions, with a view to establishing whether they confirm that specific requirements are applied. The questions raised should focus on the findings reported by the Roundland Safety Inspectorate and the results of the comparison between Rayltray's and Daistruk's safety procedures.

Given the concerns raised by the Inspectorate and the lack of clear direction from Daistruk on safety procedures, it is likely that shortcomings will be identified during this initial audit visit. The Internal Audit Department should work with Rayltray's senior management team to develop a process that will put matters right. As a start, it should be confirmed that Rayltray is now part of the Daistruk Group and so it should be operating in accordance with the Daistruk safety procedures. Internal Audit should ensure that the formal Daistruk procedures are made available to all staff. A process should be developed to ensure that staff at all levels read and understand these materials. One possibility would be to develop a programme of training courses, tailored to specific groups of employees. Safety requirements for forklift operators are different from those of administrative staff. The audit team should check the content of training programmes and ensure that there are procedures in place to check on participation. It may be sufficient to ask staff to complete an online course, provided there is evidence of completion, such as the inclusion of objective test questions and a requirement for a minimum mark.

The Internal Audit Department should schedule a follow-up visit, with sufficient notice given to ensure that all necessary changes can be implemented. The prospect of this visit will provide Rayltray's management with a clear incentive to motivate staff to comply with the safety procedures. That visit should include a combination of observation of practices and the examination of evidence. The audit team should complete a detailed examination of training certificates for forklift operators and of evidence that forklifts are being checked and maintained. Daistruk's Board should be provided with detailed feedback from this visit and should demand that any remaining shortcomings are addressed urgently.

STRATEGIC CASE STUDY

May 2023 & August 2023

EXAM ANSWERS

Variant 4

These answers have been provided by CIMA® for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.

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SECTION 1

Requirement 1 – stakeholders

Daistree's clients depend on the logistics industry in order to move their goods quickly and at the lowest possible cost. Arguably, they have relatively high power because they are a significant part of Roundland's industrial base, but a low interest because they delegate logistics matters to Daistruk (and other logistics companies) and may not take an active interest in the proposed changes. Daistruk will have to be careful in managing this stakeholder because there is a risk that it may undermine confidence in its ability to provide an adequate service. It may be more effective for the major logistics companies to work together to present a common set of arguments to their collective client base. The starting point would be to persuade clients that banning the sale of diesel trucks will push up their operating costs and may also make their deliveries less reliable. Daistruk has a large number of clients from a wide range of different industries. It may be possible to persuade them to make public declarations that jobs and standards of living could be put at risk if they cannot rely on road transport. Care will have to be taken to ensure that any such claims are credible because the ban does not come into effect until 2035.

The companies who own and operate filling stations are an important stakeholder because they may lose revenue if sales of diesel trucks are banned. They have a high interest because they sell fuel, but their power may be limited because any claims that they make will be deemed to be motivated by self interest. Daistruk should aim to seek the support of the filling stations by having them confirm its concerns about the limitations of electric trucks and their impact on transport in general. One

possible concern could be the availability of charging spaces for electric vehicles of any size making long journeys. The filling stations could confirm Daistruk's concern that it may be difficult to locate available charging points and so journeys could be delayed. Daistruk could also argue that the early adoption of electric vehicles could accelerate the closure of diesel and petrol filling stations as demand for oil-based fuels declines. This approach would further mobilise public opinion in favour of a postponement of the ban because it would raise fears that the ban will lead to hardship for the travelling public.

Vehicle manufacturers are important stakeholders because they will have to develop effective electric trucks to replace their diesel-powered vehicles. They have a high interest because of the impact that this will have on their manufacturing costs and also their revenues from the sale of trucks. Their power is limited because they are the subjects of very specific legislation. Daistruk will have to be careful in its approach to this stakeholder group because the manufacturers may not necessarily be opposed to the ban on the sale of diesel trucks. The switch to electric power will force truck owners to replace their diesel fleets with electric vehicles, which could boost their revenues in the short term. Daistruk could deal with this motivation by making public statements that the manufacturers cannot deny, effectively forcing them to imply support by their silence. Concerns such as the limited range of existing trucks and the fact that there are no immediate prospects of major improvements in battery technology cannot be denied. Similarly, the need to pass on the costs of developing electric trucks and the higher manufacturing costs they require will also have an impact on public opinion, which could discourage implementation of the ban.

Requirement 2 – Lobbying

It can be argued that Daistruk's Board has a duty to maximise shareholder wealth and that the ban proposed by the Government would be costly to the shareholders. The Government has to balance a variety of needs and interests. There is undoubtedly a good reason for the ban, but there will be social costs as well. It is perfectly acceptable for interested parties to make their views known to Government Ministers as part of the democratic process. Ministers can then make the final decision, drawing on those representations as they deem appropriate.

The principle of integrity requires Daistruk to be straightforward and honest. That suggests that any lobbying should be undertaken in a manner that acknowledges that Daistruk has an interest in the outcome. It should be sufficient for Daistruk to communicate openly and to associate itself with any public pronouncements. The public can recognise that there is a strong likelihood that a logistics company will be opposed to any proposal that interferes with road transport. That said, Daistruk should be truthful in lobbying. It should not exaggerate or misstate its arguments.

The principle of objectivity prevents Daistruk's Board from being biased. Arguably, that supports the Board duty to lobby against this ban until it can be certain that a suitable electric truck will be ready in time. The Board has a specific duty to its shareholders and it should work towards discharging that duty. There are arguments that the proposed ban will benefit a wider group of stakeholders, but the Board should not be distracted by their interests in deciding whether to lobby against them.

The principle of professional behaviour requires Daistruk to comply with the law and to avoid discrediting the company. That could complicate the question of whether to lobby on this deadline. It would be unacceptable for Daistruk to offer dishonest arguments. For example, the fact that there are no practical electric HGVs at the moment does not mean that there will still be none in 2035. If public opinion is heavily supportive of the ban, then Daistruk's lobbying could simply discredit its reputation and that of the logistics industry.

SECTION 2

Requirement 1 – Differentiation Strategy

Pursuing a differentiation strategy implies that Daistruk's service is either superior to that of competitors or is regarded as superior. Trochbild's proposal implies that Daistruk will be the first operator of a battery-powered HGV and that it will have that distinction for a period of five years. From a practical point of view, the new trucks will only start to become available in 2026, which is long before the ban on the sale of diesel-powered trucks. Daistruk's clients may not see a great deal of benefit in the early adoption of this technology because it will still be feasible for rival logistics companies to operate effectively using their existing fleets of diesel trucks. Trochbild's trucks have a good range compared to other electric vehicles, but they are still limited to 800 kilometres, after which they require an hour for recharging. They may still be at a disadvantage to diesel trucks when attempting to promote them to clients.

The adoption of Trochbild's trucks could enhance Daistruk's reputation with consumers who take an interest in the environment and managing emissions. That could reflect well on clients who make use of this new technology. Unfortunately, Daistruk will only be able to replace up to 600 of its existing diesel-powered fleet with electric trucks each year. Daistruk has 4,500 trucks, which means that it will still be operating a significant number of diesel trucks by the time Trochbild's trucks become readily available. Daistruk will still be able to claim that it is the only operator of electric HGVs and so it might enjoy a halo effect from this limited replacement. The potential benefit really depends on the extent to which Daistruk is challenged over the fact that the majority of its trucks are diesel. Hopefully Daistruk will have established its reputation for pioneering electric HGVs by the time Trochbild is able to mass produce Sparxtruk in response to demand, and so the Daistruk brand will be associated with electric HGVs.

Daistruk's ability to differentiate itself depends on the extent to which Trochbild can deliver on its expectations. The only aspect of this arrangement that Daistruk can control is the purchase of the option. Purchasing that option may signal some virtue on Daistruk's part and so could help differentiate its service to some extent, but consumers will expect to see actual trucks on the road. Trochbild claims that it can start to deliver trucks in three years, but it has only just started design work. There is no guarantee that this work will result in a viable design that meets expectations. It is also possible that Trochbild will resolve the constraints on manufacturing its new battery sooner than expected, which may permit it to make more than the expected 600 units each year. Daistruk will not be able to claim that it is offering a superior service unless it can have the unique use of these trucks for an extended period. The fact that the trucks will eventually become freely available means that any differentiation strategy will be impossible to defend once rivals acquire these vehicles for themselves.

Requirement 2 – Capital Markets

The capital markets will take account of all available information that enables the prediction of future cash flows. Daistruk should brief market analysts as soon as it purchases the option, explaining why it has done so and providing as much credible

information as is available. The significance of the 800 kilometre range and the fact that Daistruk will have exclusive rights to buy this vehicle for five years should be highlighted. Trochbild should also be encouraged to publicise the sale of the option and should express confidence in the successful completion of the design work. The purpose of those disclosures is to ensure that the capital markets understands that there is a commercial logic to Daistruk's investment in the option. The capital markets may already have been aware that Daistruk was interested in Sparxtruk, but they would not necessarily have known how the company was going to make the best possible use of it. The disclosures should also be honest about potentially negative aspects of the investment, such as the fact that the purchase price of the trucks will be 30% higher than for diesel trucks. Communicating bad news to the market prevents participants from basing prices on possibly pessimistic estimates. The markets will also view balanced disclosures as implying integrity and confidence on the part of Daistruk's Board.

After the option has been signed, the initial expectations concerning Sparxtruk will be incorporated into the share price. It will benefit Daistruk if Trochbild publicises success at various milestones in the design project. The market will be aware of the uncertainties concerning the completion of a successful design and so it will be beneficial to confirm that the design work is progressing well. Such disclosures will also benefit Trochbild by raising awareness of the new product. When the truck becomes available, Daistruk should publicise its role in the launch as prominently as possible. The purpose of doing so is to confirm that the Board remains committed to obtaining the greatest possible commercial advantage. Daistruk and Trochbild should work together in a mutually-supportive manner to confirm that both companies are confident in Sparxtruk as the future of sustainable road transport. Providing analysts with press releases about the performance of the new truck will demonstrate that the Board has the ability to exploit this advantage. Analysts would already have been aware of the possibilities, but disclosure would reduce the possibility that such plans were weak.

SECTION 3

Requirement 1 – Bonus

Paying a bonus will confirm that Daistruk values the time and effort that Doreen has invested in this project. Determining the value of investing in electric HGVs would have been a major task. The bonus will also commit the Board to supporting Doreen's decision to support this investment. As with any strategic decision, it is possible that the outcome will prove disappointing and that the decision maker will be criticised unfairly. Paying a bonus commits the Board to supporting Doreen in the event that the electric HGVs are unsuccessful. It would be difficult for the Board to withdraw its support for Doreen after paying her a bonus for her work. This will reassure Doreen that there will be no ongoing risk to her reputation because it has been agreed that she has made a positive contribution. The message will also reassure other executive directors that the Board is prepared to make a visible commitment to supporting their decisions.

Daistruk has a remuneration committee comprising non-executive directors. There is a mechanism in place to ensure that any bonus is justified. The minute extract makes it clear that the Non-Executive Chair plans to make a recommendation to the committee and so the question of a bonus will be resolved through this designated system. The fact that the bonus cannot be paid without the approval of the remuneration committee should reassure the shareholders that bonus payments are not being made without proper justification. If the bonus is approved, then it will be disclosed in Daistruk's annual report. The fact that a bonus is being paid may reassure the shareholders that the Board is demonstrating initiative on their behalf. The associated governance disclosures will also reflect the fact that the designated system for approving directors' remuneration is working as it should and that shareholders will be kept fully informed.

The shareholders might object to the payment of a bonus, even though it has been proposed by the Non-Executive Chair and approved by the Remuneration Committee. They could argue that the directors of a quoted company are well paid and should not be rewarded for doing their jobs properly. Executive pay is often a contentious matter, which explains why quoted companies generally have such complex systems in place to manage payments. Shareholders are often concerned that their boards are overpaid. The shareholders might not understand why Doreen is being rewarded at this early stage. They will not be able to judge her recent performance in the manner that Mabalemi can. It would be far easier to justify the bonus after the shareholders can see some tangible results from Doreen's leadership.

There is a risk that the other executive directors will resent this bonus. Some may claim that the decision to proceed was a Board decision and that the entire Board should be rewarded. The decision to single out Doreen's involvement could lead to motivational issues in the future, with individuals refusing to participate in decisions unless their contribution is noted. Some directors may feel that they have led projects and offered recommendations that have benefitted Daistruk in the past and that the value of their input has not been rewarded with a bonus. Directors who do not receive bonuses in the future may be discouraged from bringing ideas to the Board. That

could result in Board members working in isolation so that they can stress their personal contribution in the creation and exploitation of opportunities.

Requirement 2 – Capitals

Disclosures relating to social and relationship capital should focus on the fact that Daistruk's investment is encouraging the development of electric HGVs. Paying for the right to buy hundreds of Trochbild's new vehicles will help fund the completion of this design work and the creation of the necessary manufacturing facilities. Trochbild's rivals will also see that road transport operators are prepared to pay a premium for electric vehicles and so they will pursue their own approach to the development of sustainable vehicles.

Daistruk can also claim to be demonstrating a commitment to respecting social norms with regard to emissions and to compliance with the law. Daistruk can claim to be the first logistics company to invest heavily in the purchase of electric HGVs, which will help with the promotion of the Daistruk brand. It will also have an advantage with respect to maintaining its operations once truck manufacturers reduce their output of diesel trucks, which will ensure that it has a social licence to operate.

Daistruk will not necessarily be buying any of Trochbild's intellectual property, so it will have to be careful in discussing its rights with respect to intellectual capital. Daistruk will, nevertheless, be able to benefit from Trochbild's patents and other intangibles while the sale of the trucks is restricted. Daistruk will also benefit from the briefings and demonstrations that were provided while the decision to buy the option was being considered, which will be a valuable starting point in deciding how the use of the trucks should be planned.

Daistruk will be the only logistics company that will operate this electric HGV for the initial period after the start of production. That will give Daistruk opportunities to create valuable knowledge and understanding. During this initial period, Daistruk may be the only company that is able to operate electric HGVs under real world conditions, taking account of practical problems that may be unforeseen at this stage. Rivals will eventually be able to purchase these vehicles, but Daistruk will be the only operator who has this experience of operating them.

STRATEGIC CASE STUDY

May 2023 & August 2023

EXAM ANSWERS

Variant 5

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SECTION 1

Requirement 1 – Digital Ecosystem

An ecosystem is a network of organisations involved in the delivery of a product or service. Clearly, Daistruk belongs to many ecosystems, some of which are quite complex. There is an obvious relationship between a logistics company and its clients, but there may also be relationships with clients' suppliers and, possibly, their customers. For example, collecting imported goods from a seaport could require interaction with the shipping company and the port to ensure that Daistruk's HGVs and/or trains arrive at a time that is coordinated with the unloading of the ship and the completion of customs formalities. Similarly, some clients will require Daistruk to coordinate deliveries of goods to ensure that deliveries to customers are organised efficiently and that goods arrive when they should. There is also the question of the relationships with clients and the manner in which those relationships are organised. Different clients expect different levels of involvement in the management of their logistics. For example, Daistruk may be expected to manage deliveries on the basis of instructions or it may be expected to resupply goods in a proactive manner.

The digital ecosystem that exists at present is complicated by the fact that each client has its own ERP system in place in order to manage inventory, alongside the management of a host of other activities. Daistruk's WMS can interact with those systems in order to gather data relating to inventories, but the intention is to make improvements that will improve efficiencies in inventory management that will clearly benefit Daistruk but will only benefit clients if cost savings are shared. Daistruk must first of all establish whether the upgrades to its WMS require the active cooperation of clients, perhaps by upgrading their ERP systems or by offering greater access. For

example, opportunities to employ cross docking depend largely on Daistruk's ability to predict despatches of incoming goods. Clients can enhance Daistruk's capability in that area by providing more data about predicted sales and deliveries, otherwise opportunities to redirect incoming goods may be missed.

Daistruk will also have to consider the extent to which its WMS will have to remain responsive to the immediate needs of its clients. The proposed changes imply that Daistruk will make use of historical data to anticipate inventory movements, and warehouse operations will be scheduled accordingly. Such forward planning will possibly reduce Daistruk's ability to be flexible if a client wishes to place an unexpected request for, say, a spare part to be delivered urgently. Assigning such a task to a member of warehouse staff could cause a ripple effect that could disrupt ongoing operations. Daistruk can consider that by reviewing the extent to which it can make realistic predictions of ongoing operations and the extent to which different clients demand flexibility.

Daistruk will also have to consider the manner in which clients engage with them and the nature of the services that clients appear to value as creating value. Clients might prefer to forego increased efficiency if a change would involve the loss of some other value that they value. For example, the proposed upgrade to split up items could make it easier to pick loads for despatch. If a load requires two pallets of tinned goods, then sending two forklifts to different locations to collect a pallet each might save time. Such an arrangement could be unacceptable to clients who wish to organise regular physical inventory counts in order to confirm the accuracy of their digital inventory records. Daistruk cannot make these changes to its WMS in isolation, otherwise it could lose clients.

Requirement 2 – Cyber Risks

The WMS exchanges data with external systems, creating scope for unauthorised access. Changes to the system could create or increase vulnerabilities. Daistruk's WMS would be an attractive target for cyber criminals because it controls the despatch of clients' goods. A hacker who can access the WMS could arrange for goods to be despatched to a temporary address, with very little risk of getting caught. Apart from the financial loss, this would leave Daistruk exposed to reputational damage. Clients expect their goods to be safeguarded and issued only to authorised parties.

The fact that the WMS communicates with a large number of different ERP systems implies that the communications protocols that are used would be known to third parties. The development and testing of the upgrades to the WMS would create opportunities for hackers to insert malware that could damage Daistruk's systems, clients' systems or both. The target of such an attack could be crippled and left unable to operate until the systems can be rectified and brought back online. The risk of such an attack is increased because of the need to interact with clients' systems, meaning that client staff will also have access to communications between systems.

The upgrades could contain programming errors that disrupt files or fail to collect data. The fact that the WMS interacts with clients' ERPs means that it will be difficult for the programming team to be certain that the upgrades are entirely compatible with client systems. The cost of checking inventory movements and updating records

could prove time consuming and expensive. The delays could also affect clients' relationships with their customers, putting an even greater strain on their relationship with Daistruk.

SECTION 2

Requirement 1 – Funding

It is generally regarded as advantageous to link the term of funding to the life expectancy of the assets that are being acquired. The hardware and initial setup will hopefully have a useful life of several years and so Daistruk might consider either a long-term loan or equity. The annual licence fee might be regarded as a prepayment with a life of 12 months, or it could be viewed as an ongoing annual commitment that has to be financed. The total value of these amounts is T\$500 million, which is equal to R\$250 million or $250/(428+280) = 35\%$ of Daistruk's total long-term finance. It would be unrealistic to raise this entire amount by borrowing because Daistruk's gearing ratio would increase from $280/(280+428) = 40\%$ to $(280+250)/(280+250+428) = 55\%$, which would probably be an excessive increase.

The investment in hand scanners and setup will cost T\$300 million or R\$150 million. It might be difficult to raise a loan for this amount because the assets being acquired would have little value as collateral. The hand scanners will probably lose their value quickly as second-hand electronic devices that have been programmed to work within Daistruk's WMS. The software setup will have no value whatsoever to any third party and so cannot be pledged as security. Daistruk's existing loans are equivalent to $280/530 = 53\%$ of the company's property, plant and equipment, so it seems unlikely that it will be possible to secure much further debt, if any, against those assets. Daistruk should consider a rights issue to raise this amount. Hopefully the shareholders can be persuaded that the investment in its system will have a positive net present value. This investment constitutes a significant expansion and the shareholders may be keen to participate in its funding directly.

The T\$200 million or R\$100 million will be a prepayment against a recurring operating expense. This would normally be funded out of working capital. It would be impossible to fund this amount out of net current assets, which are only $325-238 = R\$87$ million, so Daistruk will have to raise finance in order to remain solvent. It is unclear whether there will be a saving through the cancellation of an existing software licence or whether Daistruk's operating costs will increase by R\$100 million. Presumably the Board would not be switching to the BestWMS software unless it will generate savings or additional revenue of at least R\$100 million. Hopefully, a short-term loan, repayable in one year, could be repaid out of Daistruk's net cash flows from the use of this new software. A short-term loan would not have an impact on the company's gearing ratio, so it may not increase perceptions of risk. It should be possible for Daistruk to negotiate such a short-term loan by providing the lender with a clear cash flow forecast that demonstrates an ability to pay from operating cash flows.

Requirement 2 – Currency

This is a significant annual payment. It would be ideal if Daistruk could arrange a suitable natural hedge between the cost of the licence and cash inflows in T\$. The nature of the business suggests that any such hedge is unlikely to be possible because Daistruk's operations are all within Roundland and so revenues will be in R\$. It would be worth considering whether there are any less obvious hedges. For example, major clients who export to Teeland could do more business when the T\$

is strong and so might spend more on logistics. An alternative might be to simply accept the risk associated with currency fluctuations. The problem is that the exchange rate between the T\$ and R\$ is volatile and Daistruk operates on a relatively narrow margin. A 10% increase in the cost of the software would reduce operating profit by $10/139 = 7\%$.

Daistruk's Board could consider entering into a derivative instrument that will fix the cost of the T\$ payment a year in advance. For example, a forward contract would enable Daistruk to enter into a commitment to buy T\$200 million in return for an agreed value of R\$ on a specific date, presumably a year from now. Daistruk could enter into a succession of derivatives, each taken out to cover the following year's licence payment. The exchange rate agreed will reflect market expectations of the rate that will be in force when the contract matures, so Daistruk is unlikely to eliminate much of its currency risk. The only real advantage will be that the loss will be fixed and cannot be any worse than is implied by the agreed rate. There could be a practical problem in that the T\$ will have to be purchased even if Daistruk cancels its contract with BestWMS.

An alternative would be to monitor exchange rates and market forecasts and to consider making advance payments against the next year's licence. This is effectively a variation of leading and lagging, which is a relatively simple internal hedging technique. If the exchange rate between the R\$ and T\$ appears to be in Daistruk's favour, then it would be possible to make an advance payment of some, or even all, of the annual fee. BestWMS will gladly accept early payment because its revenues are in T\$ anyway and there is no disadvantage to receiving payment at a time when the T\$ is weak against a customer's home currency. There could be interest costs or opportunity costs to Daistruk if it makes such a substantial payment before it is formally time to do so.

SECTION 3

Requirement 1 – Board role

The directors should take an active interest in ensuring that these problems are rectified quickly, without necessarily becoming involved in the detail of the problem. This matter is effectively an element of the control environment. If the Board does not express concern about systems failures, then managers and staff at lower levels may not be motivated to deal with these problems. In terms of the core value, the Board should make direct contact with clients' boards in order to reassure them that matters are in hand and will be dealt with as a priority. It is important to communicate at this level because client management teams will almost certainly have raised these issues with their superiors and Daistruk should be proactive in attempting to reassure clients. The Board should have Andrea Lopes contact BestWMS and have her express their dissatisfaction and her expectation that matters will be corrected urgently. Making such a request from one board to another ought to increase the likelihood of a rapid correction and so return to excellent service.

The Board should deal with the problems with the system by delegation. The directors should not involve themselves. Daistruk depends heavily on its systems and so it should have competent IT specialists in place to operate and maintain the WMS. The IT staff should not necessarily require instructions from the Board to make a start on resolving any issues with the system. The core value referred to by the CEO should be sufficient to ensure that IT staff realise that they need to correct any problems that might impair the quality of the service provided to clients. Arguably, work should have been under way by the time the Board was informed of the problem. The Board's only practical involvement should have been to authorise steps that were deemed beyond the authority of the IT staff. Even Andrea Lopes, the CIO, should be providing only strategic oversight of the IT staff.

Requirement 2 – Board committee

Daistruk's total dependence on its IT systems suggests that the shareholders and other stakeholders might be reassured by the existence of an IT Committee of non-executive directors. IT is an area in which problems can remain undetected because of weak supervision. For example, it may not be obvious that a control weakness has arisen because a software update has not been applied. IT is also an area that can be neglected because investments are difficult to evaluate. Costs can be measured, but revenues from upgrades and improvements can be very difficult to estimate. This is also an area in which managers can be tempted to overspend in order to have the latest and best technology, regardless of whether it is actually necessary. The IT Committee would be an ideal body to discuss the potential advantages of potential investments and could then deliver a better-informed recommendation to the Board. The Committee could also take an active interest in budgeted expenditure on the IT systems to ensure that all costs are justified and represent value for money.

The IT Committee could improve communications between IT professionals and stakeholders from different backgrounds. Appointing an IT Committee could lead to better informed Board discussion of IT matters. The IT Committee could ensure that technical matters are properly understood and discussed in terms that are accessible

to lay people. The Committee could also ensure that the annual report provides the shareholders with an understanding of the governance issues associated with IT. Shareholders are generally keen to understand the business risks that can affect their companies and so would welcome a credible report on the management of their IT infrastructure.

There could be a potential conflict between the IT Committee and Andrea Lopes, the Chief Information Officer. It may be unclear whether lines of authority and reporting should run through the Chief Information Officer or the convener of the IT Committee. There is a danger that reports will be delayed while advice is sought as to whom managers should report to of specific issues. There may be an even more serious problem if the CIO and the IT Committee issue contradictory instructions in response to problems. Again, the need to coordinate could lead to delays in urgent matters being addressed.

An IT Committee could also create conflict between the non-executive directors because of overlapping responsibilities. Daistruk already has both an Audit Committee and a Risk Committee and either of those could be viewed as having broad responsibility for key aspects of the management of IT systems. IT is such a pervasive aspect of Daistruk's operations that it could easily be argued that problems with IT controls or reporting or risks associated with IT could be the responsibility of an existing committee. Restricting the existing committees to non-IT issues would lead to a dangerous and potentially confusing distinction that could make it difficult to ensure that problems are dealt with. It would be far simpler and far more realistic to ensure that the existing committees had terms of reference that gave them the right to seek reports and address IT issues that arise in the course of their duties.

STRATEGIC CASE STUDY

May 2023 & August 2023

EXAM ANSWERS

Variant 6

These answers have been provided by CIMA® for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.

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

SECTION 1

Requirement 1 – Scenario planning

If windfarms are built at sea, then there would be little or no need for logistics companies like Daistruk to support their construction. Cargo ships could bring the turbines from Teeland, unload them at Roundlandian seaports and they could then be loaded directly onto the ships that are used for construction. It would be easier to use ships than to transport the turbines overland from one seaport to another.

Daistruk should start by obtaining expert advice on the practicality of building windfarms offshore on Roundland's coast. Daistruk would have to be cautious about investing heavily in trailers and driver training if there was a realistic possibility that the turbines will not be transported by road. If it would be possible to build the windfarms at sea, then Daistruk should seek whatever assurances are available from the decisionmakers. It is perfectly legitimate for a company that will bid for contracts to request such clarification. If the windfarms are likely to be built at sea, then Daistruk should identify the stakeholders who might oppose such a move and investigate whether they plan to lobby for the turbines to be built on land. It may be unethical for Daistruk to support any such plans when motivated by self-interest, but there is nothing wrong with investigating possibilities.

Building windfarms close to rail freight terminals suggests that the intention is to unload the components from ships onto railway wagons for transportation. That will avoid blocking main roads and motorways while trucks tow oversized loads across the country. It will also create the need to transfer these large components from railway wagons to trucks for the remainder of their journey, which could be complicated because of their size and weight.

Daistruk is well placed to offer intermodal transport for these loads because it already runs freight trains from Roundland's seaports. Transport staff should be asked to design a process for this approach to transportation, checking that Daistruk has railway wagons that can carry these loads and that it has the means to transfer loads from train to truck. Assuming that it has, or can acquire, the necessary technology, Daistruk should attempt to persuade the authorities to grant it the contract for intermodal transportation of turbines. This change could give Daistruk an advantage over rival logistics companies who may specialise in road-based transportation only.

The loss of experienced drivers would harm Daistruk in terms of its ability to operate its specialised loads business as well as costing it the opportunity to benefit from the windfarm construction. It would be much cheaper and easier for rivals to recruit drivers who are already qualified than to invest in their own training. There is little downside risk in doing so because the drivers will be able to drive trucks with normal loads in the event that they are not required for wind turbines.

Daistruk has to be careful not to act in a hasty manner. Increasing drivers' wages unilaterally could be expensive and might not offer any benefit if rivals do not actually attempt to recruit them. It would be more sensible to meet with any drivers who submit their resignation and to offer to match or exceed any wages offers by their new employer. Hopefully, that would persuade them to remain with Daistruk. It would also send a message to rivals that they are in danger of starting a mutually-damaging bidding war over drivers' wages. It may even be helpful for Daistruk's Board to contact the directors of other logistics companies to confirm that any attempt to recruit drivers will simply increase wage costs across the industry.

Requirement 2 – Economic risks

The most significant economic risk is that the volatility will lead to the cancellation of the expansion of the windfarms altogether. Power companies will have to pay for the turbines, even if the government is subsidising their purchase and acquisition, and so they may be discouraged by a price rise due to a strengthening of the T\$. Presumably, the government subsidy is required because it is not economically desirable to replace conventional power stations with wind turbines, otherwise the replacement would be happening already. Consumers must buy electricity regardless of how it is generated and so there is no great commercial advantage to motivate these purchases. If power companies wish, they can argue that they cannot afford to invest in windfarms because of the strong T\$ and can postpone this project until costs decrease. If Daistruk has invested in the equipment required to transport the turbines, then it could be faced with the cost of servicing the finance that has been invested, with no prospect of any revenue.

The need to manage exchange rates when purchasing the wind turbines could force the power companies to negotiate harder for low prices for support services, including the logistical support for moving the parts. Daistruk's bargaining position will be relatively weak because it is in competition with other heavy logistics companies. The volatility could also affect the progress of the contract and so could impact on Daistruk's cash flows. If the exchange rate is volatile, then the power companies might decide to delay purchases of turbines when the T\$ is strong. That could disrupt the available work, with peaks and troughs in demands for Daistruk's service. If turbines

are purchased in bulk when the T\$ is weaker, then there may be too many units arriving within a short period of time for Daistruk to handle and so work may have to be shared with rival logistics companies.

SECTION 2

Requirement 1 – Competitor Analysis

Competitor analysis of Hevylyft will help Dastruk to form an opinion of the implications of the retirement of its founder for its strategic leadership. At present, Hevylyft is a strong competitor for the major contract to transport wind turbines. Dastruk has already lost contracts to it because of its aggressive bidding. Dastruk's Board ought to consider what will happen when the founder retires. It would be helpful to form an opinion as to whether the loss of the founder will affect Hevylyft's ability to win contracts. For example, it would be helpful to know whether the loss of the founder will affect Hevylyft's strategies and whether any changes will make it less competitive. If Hevylyft can continue to prosper under strong leadership, even after the loss of its founder, then there is a stronger case for Dastruk to make an acquisition of the company. If Hevylyft is expected to struggle under weak leadership, then it may not be necessary for Dastruk to make this acquisition.

Dastruk should consider the strengths of its other competitors before it decides whether to bid for Hevylyft. Dastruk and Hevylyft are not the only companies in the market for oversized loads. Between them, they accounted for $20\% + 40\% = 60\%$ of the contracts issued under the previous round of construction. Dastruk must consider whether attempting to acquire Hevylyft could spark a bidding war with one or more of its competitors, which could make the acquisition uneconomic. Dastruk should also consider whether a successful bid for Hevylyft could prompt a strategic reaction from the other logistics companies who specialise in oversized loads. Part of Hevylyft's success appears to be due to investment in modern equipment and competitors could make similar investments without buying the company. It may be that other logistics companies will view the wind turbines contracts as a distraction and so would be willing to permit Dastruk to invest heavily in this acquisition without responding.

Requirement 2 – Purchase Price

Hevylyft is a private company, which means that there is no open market in the shares and so no share price that can be used as a starting point for negotiation. Dastruk is a quoted company and is accountable to its shareholders. From a governance point of view, Dastruk's Board cannot be seen to overpay for this acquisition. Hevylyft's founder will be keen to extract the maximum value and will almost certainly demand the highest possible price.

As a starting point, Dastruk might calculate its own price/earnings ratio and the P/E ratios of other major logistics companies. Multiplying Hevylyft's earnings by a representative P/E ratio would result in a valuation that is consistent with market sentiment. Care will have to be taken in presenting such a valuation because Dastruk and its main competitors are heavily involved in the transportation and management of client's goods and oversized loads are just a part of what they do. It could be argued that the specialised nature of Hevylyft's business makes it riskier than full-service logistics companies and so this model overstates the value of the acquisition.

The prospect of bidding for the windfarm contracts will complicate the negotiations because a successful bid will generate significant revenue for the Daistruk Group. Fahmi Siafri might argue that the possibility of a successful outcome in those bids should be taken into account because owning Hevylyft will increase the Daistruk Group's chances of success in those bids. Clearly, Daistruk would be reluctant to pay too much for that possibility because it may not occur.

One possible solution would be to offer to acquire Hevylyft through an exchange of Daistruk shares rather than through a cash bid. If Fahmi Siafri has a significant holding in the Daistruk Group, then she will benefit from a successful bid because the share price will rise when the contracts are announced. This arrangement could create an incentive for the founder to assist in the preparation of the bid documents on a consultancy basis. Such an arrangement might also reassure Daistruk's shareholders because Fahmi Siafri will then be exposed to some of the loss of value associated with an unsuccessful bid, so their interests will be aligned.

According to the information obtained by Alexandra Brito, it appears that Hevylyft may not necessarily be for sale. The founder of the company plans to retire soon, but she could retain ownership of the company while stepping back from any active involvement in its management. Fahmi Siafri could promote a director, or appoint one from outside, to take over whatever role she currently holds in the company's management. She could use that as an argument for demanding a high purchase price from Daistruk because she founded the company and may have an emotional attachment to it. She may not want to sell.

Daistruk may have to pay heavily for Hevylyft in any case. The company is well equipped and has an experienced workforce of highly-qualified drivers. It will offer Daistruk a significant advantage in bidding for the contracts. It may be possible to encourage Fahmi Siafri to retain at least some Daistruk shares so that she can retain some ownership of the company that she created. Daistruk could also offer her a non-executive directorship so that she can retain some contact with the business and oversight of its strategic management.

SECTION 3

Requirement 1 – Risk manager

Hevylyft's approach to risk management is currently reactive and, in some ways, rather reckless. A risk manager could take a more proactive approach. Hevylyft's culture appears to have evolved on the basis that the drivers believe that their experience enables them to disregard safety requirements because they believe that they can determine risks on the basis of their experience. This behaviour could lead to a gradual ratcheting up of risks until Hevylyft is faced with a major catastrophe, such as serious damage to a piece of road or a bridge because it could not cope with an overloaded truck.

Having a risk manager would improve Hevylyft's relationship with its insurers and might even lead to a reduction in insurance costs. The evolving risk culture is increasing the possibility of property damage or personal injury, which could make it difficult to obtain insurance cover in the future if accidents occur. Even if there are no accidents, the appointment of a risk manager might reassure insurers when Hevylyft is negotiating the continuation of its cover. It might even reduce premiums.

Major decisions are being made by drivers who are under pressure to meet scheduled departure times and to complete journeys. A risk manager would be able to take a more objective position on questions such as whether to depart without having an attendant to assist the driver of a heavy truck with a large load. The risk manager would then be able to relieve the pressure on drivers who might feel that they will be judged if they do not take risks.

The risk manager would be responsible for identifying all relevant laws, regulations and safety limits that govern Hevylyft's operations and for ensuring that all relevant staff, including mechanics and route planners, are aware of them. A risk manager can ensure that factors such as the weight restrictions recommended by trailer manufacturers are known and are complied with when planning loads. The risk manager can be the point of contact for collating all such information so that it is always possible to locate key information. The risk manager can also monitor compliance on a day-to-day basis, making sure that any breaches are identified and action taken to prevent a recurrence.

The risk manager can work with the risk committee to ensure that there are sensible risk mitigation strategies in place. The risk manager can also report to the risk committee to enable Daistruk's Board to be aware of all concerns, particularly from emerging risks. Hevylyft differs from the rest of the Group in that it will often be tasked with moving a different load that will create its own unique risks. The risk manager can ensure that all such risks are understood and are taken into account in planning an operation.

Requirement 2 – Dismissal

Lisa has a specific responsibility to the Board to manage operations. The internal audit report implies that she has been negligent in that regard and so she should be removed from her post. The company's drivers have been breaking the law in ways that could create significant reputational damage if those breaches were detected. There could also have been significant financial loss if, say, a valuable load was damaged and it was discovered that the weight limits had been exceeded. Hevlyft's insurers would almost certainly refuse to accept liability, leaving Daistruk to pay compensation. Hevlyft's ongoing operations could also be affected by the authorities paying closer attention to oversized loads. Frequent police stops could delay convoys.

It could be argued that it is unfair to single Lisa out for dismissal. The entire Board is jointly responsible for all matters associated with the running of the Group. It may be unrealistic to blame Lisa for not being aware of detailed matters of daily operations. She cannot necessarily be expected to know the weight of every load being transported. Dismissing Lisa could draw attention to these breaches. None of them are public knowledge. They have only been detected because of an internal audit investigation. If Lisa steps down, then the reasons for her departure could emerge, which would trigger the same reputational damage as an accident.

Dismissing Lisa would send out a very clear message to Hevlyft's managers that short cuts and breaches of the rules will not be tolerated. That should motivate them to be more vigilant in the future, ensuring compliance with restrictions and legislation. The fact that the management team is small suggests that any additional motivation might be helpful. The problems identified by the internal audit report are essentially attributable to poor supervision of drivers, who have responded by disregarding the rules when it suits them. The threat of dismissal will encourage managers to pay more attention to operational matters, particularly over matters that can be verified such as the presence of attendants.

The control environment depends on the Board's ability to manage the business and provide strategic oversight. Dismissing Lisa could be a backward step. She has had experience of running operations at Hevlyft and so she is potentially well qualified to oversee operations on the Board's behalf. There may not be anyone else to take her place. The remaining management team at Hevlyft is small and may not have anyone of sufficient seniority to replace her. It would be possible to transfer a manager from Daistruk's Special Loads, but that could cause resentment amongst managers and drivers at Hevlyft.

Strategic Level Case Study – Examiner’s report

May 2023 – August 2023 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 2023 and August 2023 were based on a pre-seen scenario which provided information about Daistruk, a quoted company that provides logistics services to its clients.

Many companies outsource their logistics function to third parties in order to concentrate on their core activities. It also enables them to benefit from the efficiencies that a logistics specialist can offer.

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

- Variant 1: Environmental protesters have taken to disrupting the free movement of traffic to and from major distribution centres.
- Variant 2: A new type of trailer is under development. The trailer will enable heavier shipping containers to be transported by road, which will reduce both operating costs and emissions associated with moving, say, a shipload of grain.
- Variant 3: Daistruk is considering the construction of a new inland container port.
- Variant 4: Daistruk is concerned about the implications of a proposed ban on the sale of diesel trucks in the medium-term future. There are doubts about the suitability of the electric vehicles that are in development.
- Variant 5: There are problems associated with inventory management software and its ability to interact with customers’ systems.
- Variant 6: There are concerns that Daistruk has been carrying oversized loads, in breach of the law.

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 three answers for each separate requirement.

As always, the key to achieving a passing mark or better is to answer the question as set. This is one of the main reasons candidates fail the case study. Read the questions and the scene setting pages carefully before attempting the questions. It is also vital that the candidates understand the pre-seen material. Candidates should apply their judgement to answering the requirements as fully as possible. Scenario-based questions often allow scope for differences of opinion and markers are instructed to mark different approaches on their merits.

One of the other problems with answers is a failure to demonstrate technical ability in several areas of the syllabus. It is very important that candidates study all areas of the syllabus.

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 logical application to the circumstances described in the scenario. It may also help to develop an argument by offering justification for any recommendations made. One way to formulate an answer to a typical requirement would be to imagine it as a task that had been set by a director who was delegating an important task.

Level 1 answers generally demonstrate either poor exam technique or fail to offer a logical response to the circumstances in the scenario (or both). Poor exam technique is generally due to a failure to answer the question. Poor logic generally suggests that the candidate has misunderstood the scenario. For example, the specific issues arising in the case of Daistruk include:

- The logistics industry is subject to significant scrutiny because of environmental concerns. In addition to consuming resources, the logistics industry also enables manufacturers to ship goods to consumers.
- Customers' needs vary according to the nature of the products that they require to transport and store. The nature of their businesses can also affect the issues associated with logistics management.
- Daistruk provides a variety of services, ranging from the overall management of customers' logistics needs to the transportation of individual oversized loads.

While each attribute may not necessarily inform every requirement, level 1 marks tended to be associated with a failure to appreciate the specifics of the business.

Variant 1

	Designed to test	Core activity
Task 1	Environmental protesters have blocked the entrance to a rival logistics company's warehouse. Should Daistruk recognise such protesters as stakeholders?	B – Conduct an analysis of stakeholder needs and recommend appropriate responses
	How should Daistruk manage the risks associated with such protests?	D – Evaluate risks and recommend responses that can maintain the corporate risk register
Task 2	Increased use of rail is being considered. Would shifting from road to rail have a positive impact on all stakeholders?	A - Evaluate strategic options (digital and otherwise)
	How should the increased investment in rail facilities be funded?	C – Recommend suitable sources of finance
Task 3	Daistruk plans to commit itself to replacing a significant number of road vehicles with trains. Would it be unethical to claim that this move was motivated by a desire to achieve UN Sustainability Development Goals?	D – Identify ethical dilemmas and recommend suitable responses
	Should Daistruk establish a Board Sustainability Committee?	E – Recommend responses to the threats arising from poor governance

Variant 1 Comments on performance

Task 1

One of Daistruk's rivals has been the subject of a disruptive protest by environmental protesters, who claim that logistics companies are responsible for damage to the environment. It seems likely that further protests will be staged, possibly targeting Daistruk.

The first sub-task asked whether Daistruk should recognise the protesters as stakeholders, discussing the advantages and disadvantages of engaging with them. This requirement was generally answered well. Most candidates argued that the protesters should be recognised, although arguments to the contrary were marked on their merits. Level 3 answers generally offered a logical reason for (or against) recognising the protesters as stakeholders and offered a balanced argument in relation to the merits of engagement. Level 1 answers were generally underdeveloped, with relatively little support for broad assertions relating to the requirement.

The second sub-task asked about the manner in which the risk of disruption by protesters might be addressed and how the management of that risk might be recorded in the risk register. Level 1 answers tended to offer a brief recommendation of a response, with little justification and with little explanation of how the risk might be dealt with in the risk register. Level 3 answers offered clear recommendations with good justification. That is important because directors and senior managers are unlikely to be willing to have any confidence in a recommendation unless it is accompanied by a clear explanation of its potential advantages. Level 3 answers also tended to offer a clear explanation of the information that would be logged in the risk register in relation to this risk and its mitigation.

Task 2

The first sub-task asked for an evaluation of the consistency of the greater use of rail, with Daistruk's vision to have a positive impact on stakeholders. Level 1 answers to this requirement tended to offer a very limited discussion of the stakeholders who might be affected by this switch to rail, perhaps discussing only the impact on the company's relationship with the protesters. Level 3 answers identified a range of stakeholders and highlighted the conflicts between their respective needs and interests. A number of level 3 answers discussed the extent to which the shift to rail might enhance sustainability.

The second sub-task asked for a recommendation for the funding of the increased rail capacity. Level 3 answers offered reasoned discussions of the candidates' recommended financing strategies. Answers at level 3 tended to discuss both the nature of the asset being financed and the company's present financial position. Level 1 answers often identified potential sources of finance but failed to develop any explanation for recommendations. There were a few common errors in level 1 answers. For example, a significant minority of candidates claimed that Daistruk's R\$328 of retained earnings could be used as finance, which is clearly incorrect. Retained earnings are not a source of finance.

Task 3

Daistruk has committed itself to replacing 800 trucks with 11 trains.

The first sub-task asked whether it would be unethical to claim that the switch from road to rail was motivated by a desire to meet UN Sustainability Development Goals, given that the Board was primarily interested in reducing the company's exposure to protests by environmental campaigners. This requirement was generally answered well. Level 3 answers tended to be well developed, with candidates drawing upon CIMA's ethical principles to justify their arguments. Level 1 answers were structured in a similar manner but tended to offer less discussion.

The second sub-task asked whether the Board should establish a sustainability committee of non-executive directors. This requirement was answered well, with level 3 answers tending to offer a wide range of valid arguments both for and against the proposition. At level 3, those arguments were well supported with explanations of the points being made. It was encouraging to see candidates making good use of the pre-seen to develop arguments such as Board members' expertise to staff such a committee. Level 1 answers were generally on track, but offered insufficient explanation in support of their positions.

Variant 2

	Designed to test	Core activity
Task 1	The Board is deciding whether a new type of container would be a suitable strategic investment. How might scenario planning assist the Board to decide whether this would be a suitable direction for the company to pursue?	A – Evaluate strategic options
	Funding this development might involve breaching a loan covenant - how would a lender decide whether to grant such a request?	C – Recommend suitable sources of finance
Task 2	The Board is concerned about the impact that currency movements might have. How might the risks associated with the impact of currency movements on grain imports be evaluated?	B – Recommend responses to economic, political and currency risks
	How should the currency risk be reflected in the risk register?	D – Evaluate risks and recommend responses that can maintain the corporate risk register
Task 3	The Board is concerned about the protection of IP in a new trailer design. Is it ethically acceptable to restrict access to this new trailer technology, given Daistruk's vision?	D – Identify ethical dilemmas and recommend suitable responses
	How might internal audit assist the Board in ensuring that the intellectual property associated with the trailer design is protected?	E – Apply internal audit resources

Variant 2 Comments on performance

Task 1

The task begins with candidates being informed that Daistruk has developed a new type of shipping container with the potential to improve efficiency and reduce operating costs when transporting grain.

They were asked to recommend with reasons how Daistruk might use scenario planning to determine whether the benefits from investing in these shipping containers might be affected by a decrease in truck operating costs or rival logistics companies developing their own improved grain shipping containers.

Level 3 answers showed technical knowledge of scenario planning and applied this well to the situation presented in the case study, giving examples such as the impact of changes in fuel prices and the possibility of competitors developing their own improved containers. Level 2 responses were less well developed, often showing understanding of scenario planning but not applying it as well to the specific situation or developing responses to potential scenarios. Level 1 answers often only described scenario planning but did not apply it to the situation provided.

The second part of this task asked candidates to recommend with reasons how Daistruk should deal with the breach of its debt covenants if the company borrows R\$40 million.

Level 3 answers recognised the implications of a covenant breach and gave well considered recommendations, including seeking the permission of the existing lenders, perhaps offering them incentives, or restructuring the borrowings. Level 2 responses recognised the potential seriousness of a covenant breach but provided less well-developed recommendations for the action the company should take. Level 1 answers understood what covenants are but often took the view that the company should just go ahead and breach them as the actions available to lenders are very limited. They therefore did not provide valid recommendations.

Task 2

Northland is one of Roundland's most important trading partners, and the Northlandian government has taken decisive action to strengthen the N\$. Northland supplies most of Roundland's wheat and oil.

Candidates were asked to recommend with reasons the ways in which Daistruk should respond to the economic risks arising from the strengthening of the N\$. They were specifically requested to consider the impact on all aspects of the business, including the decision to invest in the new shipping containers.

Level 3 responses explained the potential impact of economic risk on Daistruk and evaluated ways in which the company could respond to the risk, including identifying industries which would be likely to continue to import goods despite the strong N\$. They provided clear advice on the potential impact on the investment in the new containers. Level 2 answers were less well developed but did recognise the impact of economic risk on the company, while recommendations for responses were often scant. Level 1 answers often described economic risk but also other forms of currency risk and provided lists of hedging methods, which didn't really answer what was asked.

The second part of this task asked candidates to recommend with reasons the extent to which Daistruk's risk register should address the risks associated with movements on individual currencies.

Level 3 answers described the possible entries which could be made in the risk register, recognising, for example, that there would be little point in listing all the individual currencies which could give rise to economic risk. It would be more helpful to identify the specific costs which could be impacted. Level 2 answers described possible entries and their usefulness but were less well developed. Level 1 answers showed an understanding of the risk register and why it is useful but made very limited comments on the risks associated with individual currencies.

Task 3

In the final task, candidates were informed that Daistruk has taken delivery of 200 grain shipping containers. These were made by a truck-building company using technical drawings provide by Daistruk staff. Rival logistics companies wish to buy the rights to build the shipping containers for their own use in order to reduce the carbon emissions associated with handling grain cargos.

Firstly, candidates were asked to evaluate the ethical arguments for and against permitting rival companies to buy the design of the new grain shipping container.

Level 3 answers correctly identified a number of relevant ethical principles and applied them to the scenario, for example, refusing to share could be seen as a breach of professional behaviour, given that Daistruk claims to be sustainable. Candidates often made appropriate use of the CIMA code of ethics as a basis for their discussion. Level 2 answers identified fewer valid ethical considerations and discussed them in more general terms with less application to the specific situation. Level 1 responses often included some valid ethical points but focussed on the business case for selling the rights rather than the ethical implications of doing so.

In the last part of the task, Board members were concerned that rivals could copy the designs of the containers, so candidates were finally asked to recommend the work that Daistruk's Internal Audit Department might undertake in order to ensure the technical drawings of the shipping containers are secure.

Level 3 answers were well structured, setting out ways in which the intellectual property might be vulnerable and what work internal audit could do to mitigate this. Better answers recognised that the containers themselves will be accessible to third parties and could possibly be copied without access to the technical drawings. Level 2 answers often made some valid points but were less well focussed, describing the work of the Internal Audit Department in more general terms as well as the specific work to be carried out regarding the container designs. Level 1 answers described some relevant tasks but often failed to justify them.

Variant 3

	Designed to test	Core activity
Task 1	The acquisition of a company that owns inland ports is under consideration. Would this venture satisfy the SAF criteria?	B – Select and apply suitable strategic analytical tools
	What concerns could emerge post-acquisition to adversely affect this acquisition?	A – Evaluate potential acquisitions and divestment opportunities
Task 2	The acquisition will have to be financed. How should finance be managed, allowing for the need to repay loans owed by the target?	C – Recommend suitable sources of finance
	Does the intention to retain the subsidiary’s management team imply that Daistruk is lacking in strategic management skills?	A – Evaluate potential acquisitions and divestment opportunities
Task 3	Safety risks have been identified post-acquisition. How serious are the safety risks that have been identified and how might they be controlled?	D – Recommend internal controls
	How might internal audit assist with the management of these risks?	E - Apply internal audit resources

Variant 3 Comments on performance

Variant 3 was based on the scenario of a potential acquisition of Rayltray, a company that owns and operates an inland port in northern Roundland. This inland port is smaller than both of Daistruk's current inland ports and is primarily used for switching containers between road and rail transport.

Task 1

The first task in Task 1 asked candidates to evaluate the proposed acquisition of Rayltray using the suitability, acceptability and feasibility (SAF) criteria.

Many candidates presented level 3 and strong level 2 responses to this task, with many answers demonstrating a sound understanding of a wide range of issues both in favour and against the potential acquisition of Rayltray. Level 3 answers usually discussed all three of the SAF criteria and presented a balanced assessment of each. In terms of suitability, this included reflection on the impact of this acquisition on Daistruk's vision and mission. In terms of acceptability, level 3 and strong level 2 answers included a clear assessment of risk and returns of the proposal and also assessed the main stakeholders impacted by this proposal, including shareholders, customers and competitors. For feasibility, high-scoring answers considered the existing experience and skills of Daistruk and considered the financial implications of such a large acquisition.

Level 3 answers consistently made good use of the reference material (both the pre-seen and the question reference material) to support the points they made within their SAF assessment. Level 2 candidates often presented brief answers which were limited in scope and depth.

The second task in Task 1 required candidates to identify, with reasons, the problems that could emerge post-acquisition, should Daistruk acquire Rayltray.

Most candidates presented reasonable answers to this task and there was evidence of sound understanding of the potential post-acquisition problems and challenges that Daistruk may encounter. Level 3 and strong level 2 responses to this task presented a good range of well-argued and well applied problems. The strongest answers were those that made full use of the reference material, which highlighted several relevant issues, such as the current contract with one of Daistruk's main competitors, to support their answers.

Weaker level 2 and level 1 answers often failed to adequately develop their answers, with some focussing more on generic problems of acquisitions, rather than the specific problems that Daistruk would encounter as a result of the current problems at Rayltray.

Task 2

The first task asked candidates to recommend with reasons how Daistruk should deal with the funding issues arising from: financing the R\$75 million acquisition of Rayltray; managing Rayltray's R\$40 million borrowings; and financing the R\$60 million for construction work at Rayltray.

Very few candidates presented level 3 answers, although there were some strong level 2 answers to this task. The strongest answers were those that clearly and specifically dealt with each of the three funding issues separately, as the requirement had clearly set out. The highest scoring answers considered a range of funding options, including an evaluation of debt and equity options. Few candidates fully explored the share exchange option as a means of financing the R\$75 million acquisition. Very few candidates recognised the uncertainty surrounding the R\$60 million construction investment and the impact that this would have on the funding decision. Level 2 responses often presented answers which did not address the three issues separately, and instead considered the total R\$175 million as one lump sum of potential investment. The question specifically referenced the three issues separately and candidates were expected to consider them individually.

Some candidates scored low level 2 marks because their answers were too theoretical with limited direct application of the funding methods discussed to the case context. A number of candidates took this as an opportunity to demonstrate their knowledge of business valuations and funding methods, which was not asked for. Few marks are awarded at strategic level for merely demonstrating knowledge. There were few level 1 responses to this task but those that were presented brief, theoretical responses with no direct application to the case.

The second task in Section 2 asked candidates to evaluate whether the intention to retain Rayltray's senior management team implies that Daistruk lacks the strategic management skills to lead this new subsidiary.

This question was generally well answered, with many candidates achieving a high level 2 mark. These answers recognised the need for Daistruk to make use of the experience and knowledge of Rayltray's senior management team during the transition period. Weaker level 2 and level 1 answers were often brief and failed to cover relevant and applied points which focussed specifically on this proposed transition. Some of the weaker answers focussed more on the skills of Daistruk's current board rather than on the potential benefits of using the skills and experience of Rayltray's senior managers. Candidates are reminded to focus directly on what has been asked.

Task 3

The first task in Section 3 asked candidates to evaluate the risks arising from the matters identified in the letter.

This task was answered reasonably well, with many candidates scoring a high level 2 mark or above. The highest scoring candidates presented a separate assessment of each of the three issues highlighted in the letter. Strong level 2 answers highlighted the reputational impacts and the potential financial implications of the risks identified in the letter and used their understanding of the case context to explore the potential impacts on Daistruk of these risks. Low level 2 and level 1 answers were often brief and not sufficiently

focussed on the specific issues identified in the letter. Some candidates spent too much of their answer identifying mitigations for the risks rather than evaluating the risks themselves.

The second task in section 3 asked candidates to recommend with reasons how the Internal Audit Department might assist Daistruk's Board to ensure that safety procedures at Rayltray are appropriate.

This task was answered reasonably well by most candidates, with many presenting high level 2 responses. However, there were very few level 3 answers. High level 2 answers made a good attempt to discuss the role of internal audit in ensuring adequate safety procedures are implemented and managed at Rayltray's inland port. Many candidates correctly considered the need for the internal auditors to ensure that Rayltray operates to the same safety standards as Daistruk and that all procedures and documentation are made fully available to Rayltray. Testing and regular review of these procedures, such as adequate and appropriate training were also considered by the higher scoring candidates. Weak level 2 and level 1 answers tended to be generally descriptive of the role of internal audit, with little or no direct application to their role in ensuring Rayltray's safety procedures are adequate. Some level 1 answers completely ignored the specific risks set out in the reference material and therefore few marks were awarded.

Variant 4

	Designed to test	Core activity
Task 1	The government is considering banning the sale of diesel-powered vehicles in the medium-term future. How should Daistruk manage stakeholders in lobbying to delay this change?	B – Conduct an analysis of stakeholder needs and recommend appropriate responses
	Would it be unethical to lobby government to seek a delay?	D – Identify ethical dilemmas and recommend suitable responses
Task 2	A new electric vehicle has been announced. Would it be sensible for Daistruk’s Board to take an option to buy the first three years’ production?	A – Evaluate strategic options
	How should Daistruk maximise the share price benefit associated with buying this option?	C – Recommend and apply business valuation models
Task 3	The Chief Operating Officer has secured the option. What are the implications of paying a sizeable bonus to the COO?	E – Recommend responses to the threats arising from poor governance
	How should the option for the acquisition of electric vehicles be reflected in non-financial capitals?	D – Identify ethical dilemmas and recommend suitable responses

Variant 4 Comments on performance

Variant 4 is based on the government's announcement for plans to ban the sale of petrol and diesel engine road vehicles in the medium-term future, 2035. Daistruk is concerned that there are no suitable long-range HGVs in development and must therefore seek to delay or mitigate the dilemma they face.

Task 1

Task 1 presents candidates with a report conveying the Minister for Transport's announcement regarding the ban, reflecting that battery-powered HGV trucks are relatively rare, short range and require frequent recharging. Candidates are asked to assess stakeholders and identify three who might provide support to postpone the deadline and recommend how the Board might deal with them.

Many candidates failed to give a proper assessment of how stakeholders might support Daistruk and instead dealt with how Daistruk might deal with the stakeholders to allay their fears of the impact of the ban.

Candidates also either identified stakeholders incorrectly; the board itself, general public or environmental groups, without giving any considered reason why or how those groups might be engaged to support Daistruk.

Level 2 responses were able to select sensible stakeholders from several groups available: energy infrastructure providers, vehicle manufacturers, major industrial client base, institutional shareholders, logistics partners and competitors, giving sensible engagement criteria for sharing concern and engaging empathetic response. Level 3 responses went further to identify and assess the stakeholder groups and suggest ways in which Daistruk could leverage their power directly to broaden and strengthen the case Daistruk are making.

There were very many level 2 responses here, with only a few presenting well rounded assessments of how to engage, deal with and leverage the support possible.

Task 1 proceeded to ask candidates to assess whether it would be ethical to lobby Roundland's Government to withdraw its commitment to ban the sale of conventional-powered vehicles by 2035.

This received rather better answers on the whole, with most candidates giving a reasonable structured case for justifying the lobbying process using the CIMA code and focussing on professional behaviour presenting objective arguments in a factual and honest way. Better level 3 answers tended to demonstrate the need to maintain a balance with Daistruk's shareholders interests as well as Daistruk's own ambitions to innovate and lead technological evolution, tempering this with the need for a longer, more considered period within which to optimise the path to sustainability, effectively presenting a longer-term win-win situation. Poorer candidates tended to consider lobbying ethical or unethical without supplying much supportive evidence or argument.

Task 2

Task 2 moves the scenario forward by a month and presented candidates with an opportunity which the Board has to take up an option and invest in Trochbild who are developing a long-range battery-powered HGV, seemingly meeting Daistruk's needs and presenting an opportunity to have exclusive rights to the first five years production of these vehicles.

Candidates were asked to evaluate the possibility that taking up this option could allow Daistruk to pursue an effective differentiation strategy within the logistics industry.

Level 2 candidate responses were able to define the benefits of having exclusive access to new technology, enabling Daistruk to appeal to sustainability-conscious consumers seeking to promote a greener image amongst their own end users. Some light discussion for and against the advantages highlighted the potential additional cost for running the fleet and whether that increased cost could be passed on to the consumers. Level 2 candidates tended to be rather one-sided in their arguments whether for or against, not giving much consideration of the wider picture. Level 3 candidates tended to go deeper into the discussions, highlighting both sides of the arguments; potential drawbacks in the development and availability of Trochbild's vehicles, considering the possibilities of other manufacturers developing similar advantageous technologies whilst also considering the cost of not committing to the option and have others take the lead. This wider discussion tended to be much more convincing in the arguments presented to take a leadership approach in what appears to be an inevitable progression of the market and through such leadership develop market share as quickly as possible through the early adopter approach.

Discussion here all seemed quite well applied to the case, relating very much to the scenario presented, however, some failed to develop any real sense of differentiation knowledge.

Task 3 proceeded to ask candidates to assume that the option has been taken up and to recommend with reasons the approach to take to ensure potential benefits are fully reflected in Daistruk's share price. Very few candidates gave good level 3 responses here, since many answers stalled after a brief description of market efficiency and vague references to communication. Candidates often diverted into considering sources of capital rather than discussion of market position promotion and share price.

Good level 3 candidates presented several strands of promotional activities and communication channels highlighting the need to have industry specialists and analysts fully on board with the strategy, and to promote the benefits of the developments and the launch of new greener capabilities through multimedia channels using both client aspirations and government policy to heighten awareness of the sustainability developments being pursued. Shareholder value should be enhanced through full disclosures of the additional costs to be borne, but also the benefits to be gained. Level 2 candidates tended to have less detail in presenting general arguments about the need to maintain share price rather than how to maintain it.

Task 3

A further month has passed, and candidates are presented with a governance dilemma where the COO has been praised for securing the option to buy the first three years production of the new battery-powered HGV, with the suggestion from the Non-Executive Chair that she receive a performance-related bonus. Candidates were asked to evaluate arguments both for and against awarding a bonus.

This was generally very well answered by many candidates; good arguments were given both for and against the bonus by most candidates, with level 3 responses being rather better developed or gave a wider appreciation of the potential problems caused by circumventing standard governance processes in singling out individual board members special consideration in what is arguably the execution of their function. Good answers also considered the impacts both positive and negative on other Board members or indeed management and general employees.

Task 3 concludes with a request to recommend with reasons the manner in which Dastruk's integrated report should reflect the option with Trochbild under the social and relationship capital and intellectual capital headings.

Again, this was on the whole quite well answered with a good appreciation of the effect of effective communication through the integrated report; many of the better candidates in earlier sections consolidated their position here by integrating the strands of earlier arguments presented into the recommendations here. Those who related well to the scenarios presented and applied their answers to the marketplace in question were also very good here, in highlighting the differentiation elements in the intellectual capital developed in the partnership with Trochbild.

Level 2 responses were rather less coupled with the scenario and tended to give more generic answers about communication channels presented in the integrated report.

Variant 5

	Designed to test	Core activity
Task 1	Daistruk is considering upgrading its warehouse management system. How should this proposal be evaluated in terms of changes in the digital ecosystem?	A – Recommend responses to opportunities and threats arising from digital technologies
	How can the cyber risks associated with this proposal be evaluated?	D – Evaluate and mitigate cyber risks
Task 2	There will be a significant cost for the writing and updating of the software, payable to a foreign consultant. How should the cost of the system be funded?	C - Recommend suitable sources of finance
	How can the currency risks be managed?	B – Recommend responses to economic, political and currency risks
Task 3	There has been a major problem with the introduction of the warehouse management system software. Is Daistruk in breach of its corporate values with respect to its software problems?	D – Identify ethical dilemmas and recommend suitable responses
	Should the Board establish a separate Board committee to deal with IT, or would a greater involvement by internal audit be better?	E – Recommend responses to the threats arising from poor governance

Variant 5 Comments on performance

Task 1

Level 3 answers showed good understanding of an ecosystem and its importance. They made valid points such as the need to consider how the WMS can remain responsive to the immediate needs of its clients, how to ensure that clients receive services they recognise as adding value, and the interaction between clients' systems and Daistruk's. Level 2 answers discussed some relevant issues but did not focus sufficiently on the digital ecosystem, often exploring in general terms how the proposal should be evaluated. Candidates using the suitability, acceptability, feasibility model often concentrated on general evaluation points. Level 1 answers identified some appropriate points but did not explore them in sufficient depth or detail.

Secondly, candidates were asked to identify and evaluate the cyber risks associated with this proposal.

Level 3 responses correctly identified relevant cyber risks and clearly explained why they are relevant to this proposal. For example, the data exchanges between the WMS and external systems could create opportunities for unauthorised access and the upgrades could include programming errors. Level 2 responses correctly identified and described some cyber risks but often did not explain why they are relevant in this specific scenario. Level 1 answers did not go further than identifying some general cyber risks.

Task 2

Level 3 answers recognised the advantages of linking the term of funding to the life expectancy of the assets being acquired, and therefore discussed the funding of the hardware and setup costs separately from the first year's licence fee. They explored issues such as the security that Daistruk could offer and the impact on the company's gearing, making a clear recommendation as to how the upgrade should be funded. Level 2 responses often treated the hardware and licence fee as a single item and provided generic comments on the features of debt and equity rather than points focussing on the specific scenario. A common error was to recommend that Daistruk used retained earnings to fund the investment without looking at the amount of cash available. Level 1 answers often did not go beyond identifying some features of debt and equity.

Secondly, candidates were asked to recommend with reasons the approach that Daistruk should take to managing the currency risks associated with the annual license fee in future years.

Level 3 answers recognised the advantages of a natural hedge but also the difficulties in arranging this, as Daistruk's other operations are all in Roundland and BestWMS wishes to be paid in T\$. They also explained the use of derivative instruments and made appropriate well justified recommendations. Level 2 answers made some valid points but were often too general, explaining types of currency risk and possible hedging mechanisms rather than making recommendations for the scenario presented. Level 1 responses were often limited to brief descriptions of types of currency risk and hedging mechanisms.

Task 3

Level 3 responses explored both advantages and disadvantages, recognising that the directors need to take an active interest in ensuring that the problems are rectified quickly, but that the Board should deal with the problems by delegation. Level 2 answers were less well developed, with some only discussing the advantages of the Board taking an active role. Level 1 responses identified some arguments but did not explore them in sufficient depth to reach meaningful conclusions.

The final task asked candidates to discuss the potential advantages and disadvantages of Daistruk establishing a board committee of non-executive directors to review IT matters.

Level 3 responses recognised a number of advantages and disadvantages and explained them in sufficient detail. For example, the company's dependence on its IT systems would suggest that an IT committee could be appropriate and could improve communication between IT professionals and other stakeholders. But, on the other hand, there could be conflict between non-executive directors with overlapping responsibilities. Level 2 answers were often less detailed but did discuss some advantages and disadvantages. Level 1 responses described the potential role of the committee but gave limited discussion of its advantages and disadvantages.

Variant 6

	Designed to test	Core activity
Task 1	Daistruk is considering the expansion of this business by investing heavily in road and rail trailers that can transport the huge components that make up wind turbines. How might scenario planning help the Board decide on this?	A – Evaluate strategic options
	The turbines are imported. How might that create economic risks for Daistruk?	D – Recommend responses to economic, political and currency risks
Task 2	A specialist company might be taken over. How might competitor analysis help decide whether this acquisition should be considered?	B – Conduct an analysis of stakeholder needs and recommend appropriate responses
	What are the challenges associated with negotiating this acquisition and how might they be overcome?	C – Recommend and apply business valuation models
Task 3	The takeover has been completed. Some of the new subsidiary's managers have been reckless with regard to load sizes and weights. Should a risk manager be appointed at that subsidiary and what should that manager's remit be?	D – Recommend internal controls
	Should the Board member appointed from the acquisition's board be dismissed and how might that impact on the control environment?	E – Recommend responses to the threats arising from poor governance

Variant 6 Comments on performance

Task 1

The first task asked candidates to evaluate the impact of three potential scenarios and to recommend appropriate courses of action.

Level 3 and strong level 2 answers to the first scenario demonstrated awareness of Daistruk's lack of experience in this form of sea transport and therefore considered the suitability of acquiring ships or entering into collaboration with existing shipping partners. Level 3 answers also made good use of the pre-seen material to identify Daistruk's experience in managing the important export of goods by sea and its relevance to this scenario. Level 3 answers to the second scenario most often focussed on the need to update/adapt Daistruk's existing rolling stock and the relevant exhibit information regarding the difficulties in transferring goods from train to truck.

Weaker level 2 and level 1 answers were often brief answers and limited in depth. These answers consistently failed to make use of most of the relevant and appropriate reference material. For example, many level 1 answers only considered the impact of these scenarios on Daistruk and failed to present any recommended actions. Also, some level 1 and weaker level 2 answers were not strategically sound.

The second task in Section 1 required candidates to evaluate the potential economic risks to Daistruk associated with potential movements in the T\$ against the R\$ and to recommend possible responses.

Very few candidates presented level 3 responses to this part of the task and, overall, few in fact, passed it. Level 3 responses recognised that Daistruk was invoicing in R\$ and therefore the impact of any movement in the T\$ would come from its transactions with the Roundland power generators and not the wind turbine producers. Most weak level 2 and level 1 responses failed because they mistakenly assumed that Daistruk would be directly subject to currency fluctuations and therefore would be required to undertake hedging techniques in response. Very few candidates mentioned reasonable options to avoid these problems such as requiring fixed up front payments from the power generators.

Responses to this subtask were very disappointing. Candidates are reminded to make sure that they read all the examination information, as it was clear that a significant number of candidates had not taken on board that Daistruk was invoicing the power generators in R\$ and that Daistruk was not purchasing the wind turbines itself. These fundamental pieces of information were clearly missed by many candidates.

Task 2

The first task asked candidates to evaluate the potential usefulness of competitor analysis to decide whether Daistruk should acquire Hevylift.

Very few candidates presented level 3 answers, although there were some strong level 2 responses to this task. Level 3 answers were those that clearly and specifically focussed on the usefulness of undertaking competitor analysis, which included an analysis of both Hevylift and the wider competitive environment. Strong level 2 answers presented a sound and comprehensive analysis of the usefulness of analysing Hevylift but failed to focus sufficiently on the usefulness of analysing the wider competitive environment.

Weaker level 2 responses often commenced with an attempt to consider the value of competitor analysis but then spent most of the answer making recommendations on whether to purchase Hevylift, sometimes using SAF or SWOT to underpin the answers, which was largely irrelevant. A recurring weakness of answers to this task was that many failed to mention that competitor analysis should cover all competitors, not just Hevylift, often failing to mention Carree and the other transport operatives. Level 1 answers often appeared to answer their own question rather the one set, with detailed descriptions of Porter's Five Forces and SWOT analysis gaining very few marks.

The second task in Section 2 asked candidates to identify the challenges associated with negotiating a purchase price for Hevylift that would be acceptable to both its owner and Daistruk and recommend how these challenges might be overcome.

This question was generally well answered. Level 3 responses made comprehensive use of the reference material when considering the potential problems of negotiating a suitable and acceptable price with the current owner of Hevylift. The private status of the business and the potential retirement of the owner in the near future were often well considered as part of these answers. Strong level 2 answers covered a range of well applied business valuation approaches that could be used to attain an appropriate purchase price and the problems of dealing with a single owner. However, these candidates mostly failed to consider the fact that the owner might not want to sell and the problems this would give to the subsequent valuation.

Task 3

The first task in Section 3 asked candidates to evaluate the arguments for appointing a risk manager and to recommend the matters that a risks manager should be responsible for.

This task was answered reasonably well, with many candidates scoring a high level 2 mark or above. Level 3 responses clearly and effectively considered both reasons for and against the appointment of a risks manager for Hevylift and set out a good range of responsibilities for this risk manager, in the context of the case material presented in the internal audit report. Strong level 2 answers often presented well balanced answers but, in most cases, the discussions were less direct and specific to the case context and made less use of the reference material than level 3 responses. Weaker level 2 and level 1 answers were often generic and, in many cases, failed to differentiate between the two aspects of this requirement. Level 1 answers often failed to discuss the responsibilities of Hevylift's risks manager.

The second task in section 3 asked candidates to evaluate the arguments both for and against the dismissal of Lisa Adkins (the current Director for special loads and a former Chief Operating Officer at Hevylift). The question also asked candidates to explain how her dismissal might affect the control environment of Hevylift.

Level 3 responses were well applied, presenting a range of both reasons for and against the dismissal of Lisa Adkins, based upon her past experience, knowledge of Hevylift and the findings presented in the internal audit investigation. Such answers were well applied and made full use of the reference material to support the points made. Level 2 answers were also often well balanced, but, in many cases, did not make full use of the reference material to support the answer. Weaker level 2 and level 1 answers most often failed to cover either reasons for or against Lisa's dismissal and therefore failed to appropriately or fully present an evaluation of the proposal to dismiss Lisa.

The second element of this task, relating to the impact of Lisa's dismissal on the control environment of Hevylift, was not well answered by most candidates. In fact, it was most disappointing to see that a significant number of candidates did not make an attempt at this part of the task. Those that did often only considered the potential negative or positive impacts and very few presented a well-rounded or well applied answer to this aspect of the requirement.

Strategic Level Case Study May 2023 – August 2023

Marking Guidance -Variant 1

About this marking scheme

This marking scheme has been prepared for the CGMA 2019 Professional Qualification Strategic Case Study [May - August 2023].

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)	A	Develop business strategy	50 %
(b)	C	Recommend financing strategies	50 %
Section 3			
(a)	D	Evaluate and mitigate risk	40 %
(b)	E	Recommend and maintain a sound control environment	60 %

SECTION 1			
Task (a) Explain whether or not Daistruk should recognise the environmental protesters as stakeholders and, if so, discuss the advantages and disadvantages for Daistruk of engaging with them			
Trait			
Status	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines stakeholder	1
	Level 2	Explains status of protesters	2-3
	Level 3	Explains status of protesters with justification	4-5
Advantages	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies advantages	1-2
	Level 2	Discusses advantages	3-5
	Level 3	Discusses advantages with justification	6-8
Disadvantages	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies disadvantages	1-2
	Level 2	Discusses disadvantages	3-5
	Level 3	Discusses disadvantages with justification	6-8

Task (b) Recommend how the risks that Daistruk’s operations could be disrupted by protests should be addressed and recorded in the risk register			
Trait			
1st recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes recommendation	1
	Level 2	Discusses recommendation	2-3
	Level 3	Discusses recommendation with justification	4
2nd recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes recommendation	1
	Level 2	Discusses recommendation	2-3
	Level 3	Discusses recommendation with justification	4
3rd recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes recommendation	1
	Level 2	Discusses recommendation	2-3
	Level 3	Discusses recommendation with justification	4

SECTION 2			
Task (a) Evaluate the possible replacement of road transportation with rail, by reference to Daistruk’s vision ‘to have a positive impact on all stakeholders through the provision of sustainable supply chain strategies and services’			
Trait			
1st stakeholder	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies stakeholder	1
	Level 2	Discusses impact	2-3
	Level 3	Discusses impact with justification	4-5
2nd stakeholder	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies stakeholder	1
	Level 2	Discusses impact	2-3
	Level 3	Discusses impact with justification	4
3rd stakeholder	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies stakeholder	1
	Level 2	Discusses impact	2-3
	Level 3	Discusses impact with justification	4
4th stakeholder	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies stakeholder	1
	Level 2	Discusses impact	2-3
	Level 3	Discusses impact with justification	4

Task (b) Recommend with reasons how Dastruk should raise the R\$110 million to fund this investment			
Trait			
Recommendations	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes debt v equity	1-3
	Level 2	Identifies relevant considerations	4-6
	Level 3	Identifies relevant considerations with justification	7-9
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies Dastruk context	1-2
	Level 2	Reflects Dastruk context in justification	3-5
	Level 3	Supports justification with Dastruk context	6-8

SECTION 3			
Task (a) Evaluate the argument that it is unethical for Daistruk to claim that the switch to rail is evidence of progress towards specific UN Sustainability Development Goals (SDG).			
Trait			
1st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principle	1
	Level 2	Applies principle to case	2-3
	Level 3	Applies principle to case with justification	4
2nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principle	1
	Level 2	Applies principle to case	2-3
	Level 3	Applies principle to case with justification	4
3rd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principle	1
	Level 2	Applies principle to case	2-3
	Level 3	Applies principle to case with justification	4

Task (b) Evaluate the arguments for and against Daistruk’s Board establishing a sustainability committee of non-executive directors to review our operations and disclosures			
Trait			
1st argument for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes role of committee	1-2
	Level 2	Discusses benefit of committee	3-4
	Level 3	Discusses benefit of committee with good justification	5-6
2nd argument for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes potential benefit of committee	1
	Level 2	Discusses benefit of committee	2-3
	Level 3	Discusses benefit of committee with good justification	4-5
1st argument against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes potential drawback of committee	1
	Level 2	Discusses drawback of committee	2-3
	Level 3	Discusses drawback of committee with good justification	4-5
2nd argument against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes potential drawback of committee	1
	Level 2	Discusses drawback of committee	2-3
	Level 3	Discusses drawback of committee with good justification	4-5

Strategic Level Case Study November 2022 - February 2023

Marking Guidance -Variant 2

About this marking scheme

This marking scheme has been prepared for the CGMA 2019 Professional Qualification Strategic Case Study [May - August 2023].

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)	A	Develop business strategy	50 %
(b)	C	Recommend financing strategies	50 %
Section 2			
(a)	B	Evaluate business ecosystem and business environment	60 %
(b)	D	Evaluate and mitigate risk	40 %
Section 3			
(a)	D	Evaluate and mitigate risk	40 %
(b)	E	Recommend and maintain a sound control environment	60 %

SECTION 1			
Task (a) Recommend with reasons how we might use scenario planning to determine whether the benefits from investing in these shipping containers might be affected by a decrease in truck operating costs or by rival logistics companies developing their own improved grain shipping containers			
Trait			
Diesel fuel	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Discusses scenario	1-3
	Level 2	Evaluates scenario	4-6
	Level 3	Develops response	7-9
Rival companies	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Discusses scenario	1-2
	Level 2	Evaluates scenario	3-5
	Level 3	Develops response	6-8
Task (b) Recommend with reasons how we should deal with the breach of our debt covenants if we borrow R\$40 million			
Trait			
Recommendations	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes covenants	1-3
	Level 2	Describes possible response	4-6
	Level 3	Offers detailed recommendation	7-9
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some justification	1-2
	Level 2	Offers full justification	3-5
	Level 3	Offers full justification with context	6-8

SECTION 2			
Task (a) Recommend with reasons the ways in which Daistruk should respond to the economic risks arising from the strengthening of the N\$			
Trait			
Respond to risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies arguments for impact	1-2
	Level 2	Discusses arguments for impact	3-5
	Level 3	Discusses arguments for impact with justification	6-7
Accept risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies arguments against impact	1-2
	Level 2	Discusses arguments against impact	3-5
	Level 3	Discusses arguments against impact with justification	6-7
Investment	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies impact on investment	1-2
	Level 2	Discusses impact on investment	3-5
	Level 3	Discusses impact on investment with justification	6-7
Task (b) Recommend with reasons the extent to which Daistruk's risk register should address the risks associated with movements on individual currencies			
Trait			
Recommendations	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes risk register	1-2
	Level 2	Describes possible entries	3-4
	Level 3	Describes possible entries in context	5-6
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes usefulness	1-2
	Level 2	Describes usefulness in detail	3-4
	Level 3	Describes usefulness in context	5-6

SECTION 3			
Task (a) Evaluate the ethical arguments for and against permitting rival companies to buy the design of our grain shipping container. Bear in mind that Daistruk’s vision is “to have a positive impact on all stakeholders through the provision of sustainable supply chain strategies and services”			
Trait			
1st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principle	1
	Level 2	Applies principle to case	2-3
	Level 3	Applies principle to case with justification	4
2nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principle	1
	Level 2	Applies principle to case	2-3
	Level 3	Applies principle to case with justification	4
3rd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principle	1
	Level 2	Applies principle to case	2-3
	Level 3	Applies principle to case with justification	4

Task (b) Recommend the work that Daistruk’s internal audit department might undertake in order to ensure that the technical drawings of the shipping containers are secure			
Trait			
1st task	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes role of internal audit	1-2
	Level 2	Discusses task that might be undertaken	3-4
	Level 3	Discusses task that might be undertaken with good justification	5-6
2nd task	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes task that might be undertaken	1
	Level 2	Discusses task that might be undertaken	2-3
	Level 3	Discusses task that might be undertaken with good justification	4-5
3rd task	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes task that might be undertaken	1
	Level 2	Discusses task that might be undertaken	2-3
	Level 3	Discusses task that might be undertaken with good justification	4-5
4th task	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes task that might be undertaken	1
	Level 2	Discusses task that might be undertaken	2-3
	Level 3	Discusses task that might be undertaken with good justification	4-5

Strategic Level Case Study May 2023 – August 2023

Marking Guidance - Variant 3

About this marking scheme

This marking scheme has been prepared for the CGMA 2019 Professional Qualification Strategic Case Study [May - August 2023].

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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.
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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)	A	Develop business strategy	40 %
Section 2			
(a)	C	Recommend financing strategies	60 %
(b)	A	Develop business strategy	40 %
Section 3			
(a)	D	Evaluate and mitigate risk	50 %
(b)	E	Recommend and maintain a sound control environment	50 %

SECTION 1			
Task (a) Evaluate the proposed acquisition of Rayltray using the suitability, acceptability and feasibility criteria (SAF)			
Trait			
Suitability	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines suitability	1-2
	Level 2	Discusses suitability	3-5
	Level 3	Discusses suitability with justification	6-7
Acceptability	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines acceptability	1-2
	Level 2	Discusses acceptability	3-5
	Level 3	Discusses acceptability with justification	6-7
Feasibility	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines feasibility	1-2
	Level 2	Discusses feasibility	3-5
	Level 3	Discusses feasibility with justification	6-7

Task (b) Identify with reasons the problems that could emerge post-acquisition if Daistruk acquires Raylray			
Trait			
1st problem	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes problem	1
	Level 2	Discusses problem	2-3
	Level 3	Discusses problem with justification	4
2nd problem	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes problem	1
	Level 2	Discusses problem	2-3
	Level 3	Discusses problem with justification	4
3rd problem	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes problem	1
	Level 2	Discusses problem	2-3
	Level 3	Discusses problem with justification	4

SECTION 2			
Task (a) Recommend with reasons how Daistruk should deal with the funding issues arising from: financing the R\$75 million acquisition of Rayltray; managing Rayltray's R\$40 million borrowings; and financing the R\$60 million for construction work at Rayltray			
Trait			
Acquisition	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Recommends funding	3-5
	Level 3	Recommends funding with justification	6-7
Borrowings	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Recommends funding	3-5
	Level 3	Recommends funding with justification	6-7
Construction	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Recommends funding	3-5
	Level 3	Recommends funding with justification	6-7

Task (b) Evaluate whether the intention to retain Rayltray’s senior management team implies that Daistruk lacks the strategic management skills to lead this new subsidiary			
Trait			
1st issue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4
2nd issue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4
3rd issue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4

SECTION 3			
Task (a) Evaluate the risks arising from the matters identified in the letter			
Trait			
Safety officer	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes risk	1-2
	Level 2	Evaluates risk	3-4
	Level 3	Evaluates risk with justification	5-6
Certificates	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes risk	1-2
	Level 2	Evaluates risk	3-4
	Level 3	Evaluates risk with justification	5-6
Maintenance	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes risk	1
	Level 2	Evaluates risk	2-3
	Level 3	Evaluates risk with justification	4-5

Task (b) Recommend with reasons how the internal audit department might assist Daistruk's Board to ensure that safety procedures at Raylray are appropriate			
Trait			
1st task	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes task that could be offered	1-2
	Level 2	Discusses task that could be offered	3-4
	Level 3	Discusses task that could be offered with good justification	5-6
2nd task	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes task that could be offered	1-2
	Level 2	Discusses task that could be offered	3-4
	Level 3	Discusses task that could be offered with good justification	5-6
3rd task	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes task that could be offered	1
	Level 2	Discusses task that could be offered	2-3
	Level 3	Discusses task that could be offered with good justification	4-5

Strategic Level Case Study May 2023 – August 2023

Marking Guidance - Variant 4

About this marking scheme

This marking scheme has been prepared for the CGMA 2019 Professional Qualification Strategic Case Study [May - August 2023].

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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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)	A	Develop business strategy	50 %
(b)	C	Recommend financing strategies	50 %
Section 3			
(a)	E	Recommend and maintain a sound control environment	60 %
(b)	D	Evaluate and mitigate risk	40 %

SECTION 1			
Task (a) Identify three key stakeholders, other than the Government, whose support we might seek in order to postpone this deadline and recommend how we might deal with each			
Trait			
1st stakeholder	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies stakeholder	1-2
	Level 2	Discusses management	3-5
	Level 3	Discusses management with justification	6-7
2nd stakeholder	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies stakeholder	1-2
	Level 2	Discusses management	3-5
	Level 3	Discusses management with justification	6-7
3rd stakeholder	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies stakeholder	1-2
	Level 2	Discusses management	3-5
	Level 3	Discusses management with justification	6-7

Task (b) Discuss whether it would be ethical for Daistruk to lobby Roundland's Government to withdraw its commitment to ban the sale of petrol and diesel-engined road vehicles by 2035			
Trait			
1st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principle	1
	Level 2	Applies principle to case	2-3
	Level 3	Applies principle to case with justification	4
2nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principle	1
	Level 2	Applies principle to case	2-3
	Level 3	Applies principle to case with justification	4
3rd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principle	1
	Level 2	Applies principle to case	2-3
	Level 3	Applies principle to case with justification	4

SECTION 2			
Task (a) Evaluate the possibility that taking up the option to buy these HGVs would enable Daistruk to pursue an effective differentiation strategy within the logistics industry			
Trait			
1st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Outlines argument for or against	1-2
	Level 2	Discusses argument for or against	3-4
	Level 3	Discusses argument for or against with justification	5-6
2nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Outlines argument for or against	1-2
	Level 2	Discusses argument for or against	3-4
	Level 3	Discusses argument for or against with justification	5-6
3rd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Outlines argument for or against	1
	Level 2	Discusses argument for or against	2-3
	Level 3	Discusses argument for or against with justification	4-5
Task (b) Assuming that we buy this option, recommend with reasons the approach that we should take to ensure that the potential benefits are fully reflected in Daistruk's share price			
Trait			
Signing option	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes impact of signing option on share price	1-3
	Level 2	Discusses market communication	4-6
	Level 3	Discusses market communication with justification	7-9
Exercising option	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes impact of exercising option on share price	1-2
	Level 2	Discusses market communication	3-5
	Level 3	Discusses market communication with justification	6-8

SECTION 3			
Task (a) Evaluate the arguments both for and against awarding a bonus to Doreen Sumpat for her work on securing this option			
Trait			
1st argument for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Outlines argument for	1-2
	Level 2	Discusses argument for	3-4
	Level 3	Discusses argument for with justification	5-6
2nd argument for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Outlines argument for	1
	Level 2	Discusses argument for	2-3
	Level 3	Discusses argument for with justification	4-5
1st argument against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Outlines argument against	1
	Level 2	Discusses argument against	2-3
	Level 3	Discusses argument against with justification	4-5
2nd argument against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Outlines argument against	1
	Level 2	Discusses argument against	2-3
	Level 3	Discusses argument against with justification	4-5

Task (b) Recommend with reasons the manner in which Daistruk's integrated report should reflect its option with Trochbild under the headings of social and relationship capital and intellectual capital			
Trait			
Social and relationship	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1-2
	Level 2	Discusses disclosure	3-4
	Level 3	Discusses disclosure with good justification	5-6
Intellectual	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1-2
	Level 2	Discusses disclosure	3-4
	Level 3	Discusses disclosure with good justification	5-6

Strategic Level Case Study May 2023 – August 2023

Marking Guidance - Variant 5

About this marking scheme

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General marking guidance

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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.
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- 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)	D	Evaluate and mitigate risk	40 %
Section 2			
(a)	C	Recommend financing strategies	50 %
(b)	B	Evaluate business ecosystem and business environment	50 %
Section 3			
(a)	D	Evaluate and mitigate risk	40 %
(b)	E	Recommend and maintain a sound control environment	60 %

SECTION 1			
Task (a) Recommend how the proposal to upgrade the WMS can be evaluated in terms of changes to the digital ecosystem in which Daistruk operates			
Trait			
1st issue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1-2
	Level 2	Discusses issue	3-4
	Level 3	Discusses issue with justification	5-6
2nd issue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4-5
3rd issue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4-5
4th issue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4-5

Task (b) Identify and evaluate the cyber risks associated with this proposal			
Trait			
1st risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes risk	1
	Level 2	Discusses entry	2-3
	Level 3	Discusses entry with justification	4
2nd risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes risk	1
	Level 2	Discusses entry	2-3
	Level 3	Discusses entry with justification	4
3rd risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes risk	1
	Level 2	Discusses entry	2-3
	Level 3	Discusses entry with justification	4

SECTION 2			
Task (a) Recommend with reasons how we should finance the hardware and setup costs of T\$300 and the first year's licence fee of T\$200			
Trait			
Hardware	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-3
	Level 2	Offers recommendation	4-6
	Level 3	Offers recommendation with justification	7-9
Licence fee	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Offers recommendation	3-5
	Level 3	Offers recommendation with justification	6-8
Task (b) Recommend with reasons the approach that we should take to managing the currency risks associated with the annual licence fee in future years			
Trait			
Natural/internal	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes possible natural/internal hedge	1-3
	Level 2	Discusses possible natural/internal hedge	4-6
	Level 3	Discusses possible natural/internal hedge with justification	7-9
External	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes possible external hedge	1-2
	Level 2	Discusses possible external hedge	3-5
	Level 3	Discusses possible external hedge with justification	6-8

SECTION 3			
Task (a) Evaluate the arguments both for and against the need for the Board to take an active role in addressing the problems with the upgraded WMS in order to adhere to Daistruk's core value			
Trait			
Argument for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies argument for	1-2
	Level 2	Discusses argument for	3-4
	Level 3	Discusses argument for with justification	5-6
Argument against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies argument against	1-2
	Level 2	Discusses argument against	3-4
	Level 3	Discusses argument against with justification	5-6

Task (b) Discuss the potential advantages and disadvantages of establishing a Board committee of non-executive directors to review IT matters

Trait			
1st advantage	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes role of committee	1-2
	Level 2	Discusses advantage of committee	3-4
	Level 3	Discusses advantage of committee with good justification	5-6
2nd advantage	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes potential benefit of committee	1
	Level 2	Discusses advantage of committee	2-3
	Level 3	Discusses advantage of committee with good justification	4-5
1st disadvantage	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes potential drawback of committee	1
	Level 2	Discusses disadvantage of committee	2-3
	Level 3	Discusses disadvantage of committee with good justification	4-5
2nd disadvantage	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes potential drawback of committee	1
	Level 2	Discusses disadvantage of committee	2-3
	Level 3	Discusses disadvantage of committee with good justification	4-5

Strategic Level Case Study May 2023 – August 2023

Marking Guidance - Variant 6

About this marking scheme

This marking scheme has been prepared for the CGMA 2019 Professional Qualification Strategic Case Study [May - August 2023].

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

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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 %

SECTION 1			
Task (a) Evaluate the impact of the following three scenarios and recommend possible courses of action			
Trait			
1st scenario	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Evaluates scenario	1-2
	Level 2	Evaluates scenario with response	3-5
	Level 3	Evaluates scenario with response and with justification	6-7
2nd scenario	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Evaluates scenario	1-2
	Level 2	Evaluates scenario with response	3-5
	Level 3	Evaluates scenario with response and with justification	6-7
3rd scenario	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Evaluates scenario	1-2
	Level 2	Evaluates scenario with response	3-5
	Level 3	Evaluates scenario with response and with justification	6-7
Task (b) Evaluate the potential economic risks to Daistruk associated with potential movements in the T\$ against the R\$ and recommend possible responses			
Trait			
Risks	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies risks	1-2
	Level 2	Evaluates risks	3-4
	Level 3	Evaluates risks with justification	5-6
Responses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes responses	1-2
	Level 2	Describes relevant responses	3-4
	Level 3	Describes relevant responses with justification	5-6

SECTION 2**Task (a)** Evaluate the potential usefulness of competitor analysis to decide whether Daistruk should acquire Hevlyft

Trait			
Hevlyft	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes analysis of Hevlyft as a competitor	1-2
	Level 2	Discusses analysis of Hevlyft as a competitor	3-4
	Level 3	Discusses analysis of Hevlyft as a competitor with justification	5-6
Other rivals	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes analysis of rivals as competitors	1-2
	Level 2	Discusses analysis of rivals as competitors	3-4
	Level 3	Discusses analysis of rivals as competitors with justification	5-6

Task (b) Identify the challenges associated with negotiating a purchase price for Hevlyft that would be acceptable to both Fahmi Sjafri and Dastruk and recommend how those challenges might be overcome

Trait			
1st challenge	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes challenge	1-2
	Level 2	Discusses challenge and recommends response	6-5
	Level 3	Discusses challenge and recommends response with justification	6-7
2nd challenge	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes challenge	1-2
	Level 2	Discusses challenge and recommends response	6-5
	Level 3	Discusses challenge and recommends response with justification	6-7
3rd challenge	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes challenge	1-2
	Level 2	Discusses challenge and recommends response	6-5
	Level 3	Discusses challenge and recommends response with justification	6-7

SECTION 3			
Task (a) Evaluate the arguments for appointing a risk manager at Hevlyft and recommend the matters that a risk manager should be responsible for			
Trait			
Arguments	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies arguments	1-3
	Level 2	Discusses arguments	4-6
	Level 3	Discusses arguments with justification	7-9
Responsibilities	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies responsibilities	1-2
	Level 2	Discusses responsibilities	3-5
	Level 3	Discusses responsibilities with justification	6-8
Task (b) Evaluate the arguments for and against the dismissal of Lisa Adkins in the light of this internal audit report and explain how her dismissal might affect the control environment at Hevlyft			
Trait			
Arguments for dismissal	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies arguments for dismissal	1
	Level 2	Discusses arguments for dismissal	2-3
	Level 3	Discusses arguments for dismissal with good justification	4-5
Arguments against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies arguments against dismissal	1
	Level 2	Discusses arguments against dismissal	2-3
	Level 3	Discusses arguments against dismissal with good justification	4
Control environment	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines control environment	1-2
	Level 2	Discusses impact on control environment	3-5
	Level 3	Discusses impact on control environment with good justification	6-8