

## May and August 2022 Strategic Case Study

### 2019 CIMA Professional Qualification

### Full post exam support materials

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

#### Pre-seen material

May and August 2022 strategic case study pre-seen can be found [here](#)

#### Examiner's report

The May and August 2022 examiner's report can be found [here](#)

#### Exam variants

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

#### Suggested solutions

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

#### Marking Guidance

- Marking guidance for variant 1 can be accessed [here](#)
- Marking guidance for variant 2 can be accessed [here](#)
- Marking guidance for variant 3 can be accessed [here](#)
- Marking guidance for variant 4 can be accessed [here](#)
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**Strategic Case Study Examination  
May & August 2022  
Pre-seen material**



**COVID-19 Statement**

*This pre-seen and the case study in general (while aiming to reflect real life), are set in a context where the COVID-19 pandemic has 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 the pandemic or social distancing will, of course, be marked on their merits. In most cases, however, candidates may find it helpful to assume that there are no restrictions to the movement of people, goods or services in place.*

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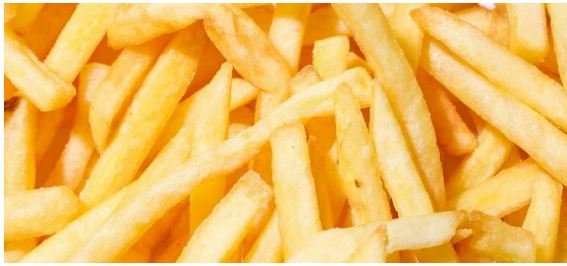
## Introduction

Snakwheel is a quoted company that facilitates home deliveries on behalf of fast food companies across its home country. Consumers can order food by app or through Snakwheel’s website.

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

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

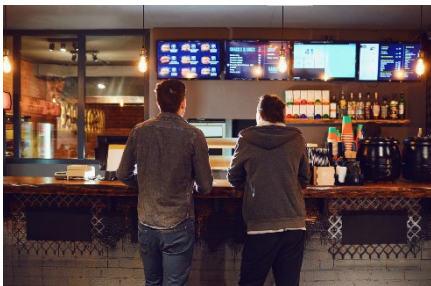
## The fast food industry



Fast food restaurants aim to serve food quickly and on demand. That can often be achieved by selling menu items that can be cooked in batches and then kept hot, often by keeping them under bright lamps that radiate heat. For example, a batch of fries can be kept hot and remains sellable for up to 10 minutes. Having such items ready-made, with fresh batches in preparation throughout the day, means that more customers can be served at busy times.



There are other fast food items designed to be quick to prepare. For example, pizza can be made by spreading a portion of sauce across a ready-made pizza base, sprinkling cheese and other toppings and baking the uncooked pizza in a preheated oven for just a few minutes.



Fast food restaurants are designed to serve customers as quickly as possible. Many have a counter that is designed so that staff can take orders, collect payment and deliver food as quickly as possible.

Seating may be provided so that customers can eat their meals in the restaurant, but it is generally designed to be slightly uncomfortable in order to encourage customers to leave as soon as they have eaten.



Meals are usually served in disposable containers. Customers are then free to take their food away and eat it elsewhere.

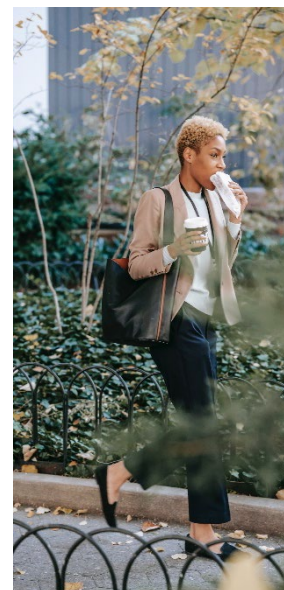
Customers who eat their meals in the restaurant can dispose of their containers in the bins provided before they leave. There is no need for staff to collect and wash dirty dishes. At most, restaurant staff will only have to remove any litter and wipe down tabletops with an antiseptic spray.

Fast food is also designed to be quick to eat. Making food easy to bite and chew encourages customers to eat more quickly. Again, that encourages customers to finish their meals and to leave to create space for more customers. Fast food items are generally made with little or no fibre in their ingredients and they usually contain sauces that make the food moist and so easy to chew and swallow. Bread used in sandwiches and burger buns tends to be baked so that it is light and airy.

The ease and convenience of purchase makes fast food popular. It can be purchased and eaten for lunch during the working day or for breakfast on the way to work. Consumers may also be keen to eat a quick meal to save time for some other reason, perhaps dinner on the way to meet friends.

Many consumers enjoy fast food because of the factors that make it easy to eat. The sauces that make it easy to chew also enhance the flavour. The lighter breads used in buns and sandwiches make for a more pleasant texture and also create the impression that the restaurant has been generous with the fillings.

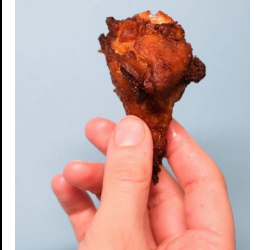
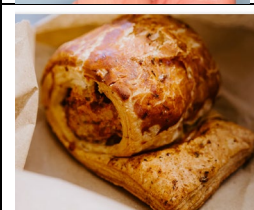
The efficiencies associated with making and selling fast food means that it tends to be significantly cheaper than alternative forms of eating out. In addition, fast food outlets, unlike traditional restaurants, do not feel a need to incur unnecessary costs on creating a comfortable dining experience.



Fast food restaurants can operate as independent outlets, but many belong to national and global chains, with heavy advertising and a consistent brand image. Customers of chains often know the menus of their favourite chains and know what they will order before entering a restaurant.

There are many different varieties of fast food. These often vary according to local cultural tastes as well as the relative success of major brands in any given country. The following types of fast food are popular in Westaria:

	<p>Burger restaurants specialise in meat patties made from minced beef, chicken or fish that are fried or grilled and served in a bun, usually accompanied by fries.</p>
	<p>Pizza restaurants make their products from a flat base of pizza dough, layers of tomato sauce, grated cheese and toppings.</p> <p>Pizzas usually have to be made to order, which can be done very quickly. That makes it possible to offer customers a wide choice of toppings that can be ordered in any combination.</p>
	<p>Sandwich restaurants generally offer customers a choice of different types of sandwiches being made to order from the customer's choice of breads and fillings.</p> <p>Sandwiches are often sold cold, but some restaurants offer the option of having them toasted.</p>

	<p>Chicken restaurants sell pieces of chicken that have usually been dipped in batter and deep-fried until the chicken has been cooked and the batter has become crispy.</p>
	<p>Some fast food restaurants are associated with bakery chains that specialise in pastries, sausage rolls and similar products that are essentially pastry wrapped around a filling.</p>



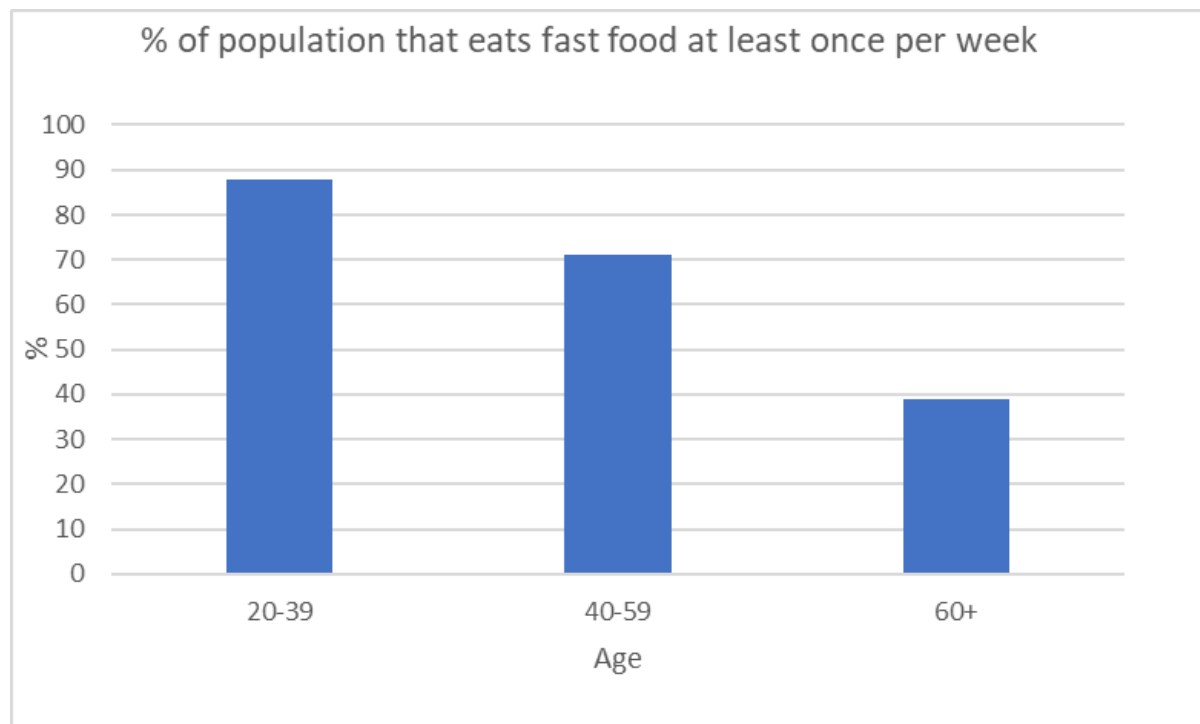
Most fast food restaurants also offer a range of soft drinks, side dishes such as fries or potato wedges and desserts. These generally share the characteristics of the main meal options in that they are quick and easy to prepare and are supplied in disposable packaging.

All restaurants offer a range of meat-free and other options to meet specific dietary needs of customers.



The Westarian fast food industry generated sales of W\$172 billion during the year ended 31 December 2021, with sales from 55,000 outlets spread across the country. Fast food has grown steadily for many years. The number of outlets increased by 36% from 2011 to 2021.

Industry surveys show that there are 70% of Westarians aged over 20 who eat fast food at least once per week and 23% eat fast food three times or more. Generally, younger consumers eat fast food more frequently than older.



### Fast food home deliveries

The phrase “home delivery” applies to deliveries made to the customer’s chosen location, regardless of whether it is their home address or places of employment, hotels and any other fixed locations that are safe and accessible.

Home delivery services started in the early 1990s, when a major burger chain created its own telephone ordering service that enabled customers to order food from the chain’s menu and pay by credit card when placing their order. This was a major success and was soon copied by other fast food chains. Customers enjoyed the ability to obtain fast food from their favourite restaurants without having to leave their homes.






The market for home deliveries grew, driven in part by widespread ownership and use of smartphones and tablets with Wi-Fi connections. These gave customers access to restaurant websites that enabled them to place orders and pay online. They also enabled customers to download apps that simplified the ordering and payment processes further.

Snakwheel created Westaria’s first independent home delivery platform in 2007. Previously, fast food chains that wished to offer home delivery had established their own delivery services, using their own websites and employing their own delivery staff. Snakwheel disrupted that approach to home delivery by creating a website that enabled customers to access several fast food chain menus. Food ordered through this website would be collected from a restaurant operated by the chain by Snakwheel’s couriers and delivered to customers. This service proved attractive to both customers and restaurant chains.

Snakwheel has two major competitors, both of whom provide similar home delivery services. Munchbike was launched in 2009 and Truckbites in 2011.

Snakwheel and its competitors describe themselves as “platforms” in recognition of the fact that platforms are defined as online or physical environments that connect different groups and offer benefits based on the participation of others in the platform.

Home delivery platforms share the following characteristics:

	<p>Customers place orders online, using mobile phone apps, tablets or computers.</p> <p>Apps are promoted heavily through advertising and social media.</p> <p>Customers can create an account that includes their payment details, or they can pay for individual orders using their bank cards. It may be possible to pay by cash, depending on their location.</p>
	<p>Platforms offer access to a range of different restaurant menus, generally one from each major category of fast food such as burgers, pizza, etc.</p> <p>That means that a family or group of friends can order from different restaurants to suit their preferences, making just one payment and avoiding the inconvenience of placing separate orders with different restaurants.</p>
	<p>The platform’s software identifies the most suitable restaurant branches from which to fulfil each order. Details are transmitted to the restaurants, which then have responsibility for preparing the food and packing it ready for collection.</p> <p>The food is then collected by a courier (or couriers if the order is from two or more restaurants), who delivers it to the customer.</p>
	<p>Couriers are equipped with insulated boxes with battery-powered heating elements. These are mounted on the pillions of low-powered motorcycles or carried in small cars. The boxes keep the food hot on the journey from the restaurant to the delivery address.</p> <p>Couriers are required to provide their own vehicles. Platforms hold couriers responsible for ensuring that the vehicles are roadworthy and that they are insured for business purposes.</p>
	<p>Most platforms aim to ensure that food is delivered within 30 to 40 minutes of placing an order.</p> <p>If customers order from more than one restaurant then food may be collected and delivered by more than one courier.</p>

Platforms are sometimes referred to as “portals” to reflect the fact that they provide access to restaurant menus and can accept orders. They are also referred to as “aggregator portals” to



reflect the fact that they “aggregate” or combine access to multiple restaurants through a single app.

Most platforms offer customers a range of payment options:

- Smartphone and tablet apps can be linked to customer debit and credit cards so that payment is taken automatically.
- Customers who do not link their cards can pay by inputting their card numbers through the app or the platform’s website every time they order.

Some restaurants permit their couriers to accept cash payments for meals. Most platforms insist on payment by card or app because there are rarely suitable bases to which cash can be submitted.

The platforms track all sales made on behalf of each restaurant. The platforms are entitled to an agreed commission. The platforms track the amounts collected on behalf of each restaurant from card and cash payments and they remit the net amount due, after taking account of any charges such as commissions and any rent due for use of dark kitchens, on a regular basis.



Some platforms operate “dark kitchens”, which are basically large storage and food preparation facilities that are rented to one or more fast food restaurant chains. These dark kitchens are divided so that each fast food chain has its own separate kitchen area for food storage and preparation. The fast food chains hire their own cooks to ensure that the food made at the “dark kitchen” is exactly the same as that from one of their restaurants.

Dark kitchens are not restaurants. They do not have any seating. They are designed to prepare food, ready for delivery. Platforms build dark kitchens in areas where the expected demand is sufficient to justify their construction. They are attractive to fast food chains that require additional capacity to relieve the pressure on the conventional outlets in busy areas. They can also be a cost-effective way to establish a presence and so generate revenues in areas that would not offer sufficient demand to construct a conventional outlet.

The platforms do not necessarily require a great deal of local infrastructure in the towns and cities in which they operate. Couriers operate remotely, with little or no direct supervision. Couriers are controlled by means of apps that they download to their smartphones. The platforms can use these apps to track their couriers’ location and availability.

Platforms generally use two approaches to staffing:

<p><b>Employees</b></p>	<p>Densely populated areas often generate sufficient demand to employ couriers on either a full-time or part-time basis. City centres usually have large numbers of office workers who wish to order fast food deliveries for lunch. Some residential areas have large numbers of fast food delivery customers.</p> <p>Employees are entitled to the various rights and protections afforded under employment law, including a contract, holiday pay and pension contributions. They are also issued with uniforms and insulated delivery boxes.</p>
<p><b>Independent contractors</b></p>	<p>Most fast food couriers are independent contractors, who are paid a set rate for every delivery made. Contractors download an app to their personal smartphones and that enables the platform’s software to communicate instructions to collect and</p>



deliver food orders. The contractors use the app to indicate that they are available for work. Incoming orders are offered to all suitably located couriers who are available.

Platforms issue contractors with uniforms and with branded insulated boxes.

Couriers are not particularly well paid by the platforms, although it is customary for customers in Westaria to pay a gratuity for food deliveries, especially if the food is delivered promptly.

The performance of couriers is monitored closely. Customers are invited to rate their experience after each order and any complaints about the quality of the service provided are investigated and can result in dismissal.

## Snakwheel

Snakwheel was launched as Westaria’s first major home delivery platform in 2007. The founders were keen to exploit the complementary growth in both online shopping and consumer demand for fast food. Both of those trends were particularly associated with the same demographic, namely younger consumers, and so a website that offered immediate delivery of fast food was likely to succeed.

The company was quoted on the Westarian Stock Exchange in 2016.

Snakwheel remains Westaria’s largest fast food delivery platform. It currently serves:

- 12,000 outlets (that is, branches of restaurant chains and bakery shops)
- 190 separate catchment areas, covering every town and city in Westaria (chains often have multiple branches in town and city centres and so Snakwheel does not have to serve every branch located within each of its catchment areas)
- 23 dark kitchen facilities, which accommodate a total of 68 separate dark kitchens operated by various fast food chains.

Snakwheel acts as a portal for the following restaurant brands:

	<p>Taystburger is Westaria’s most popular burger chain, with 4,400 branches across the country. It is also the largest and most profitable fast food chain in the country.</p> <p>Most towns have several Taystburger restaurants.</p> <p>Taystburger has a breakfast menu that includes pancakes, eggs and coffee. It is available from 6.00am until 11.00am each morning.</p> <p>Taystburger sells items from its main menu from 11.00am onwards. These take the form of beef, chicken and fish burgers, all served in buns and usually accompanied by fries. Taystburger also sells desserts and a range of hot drinks and cold soft drinks.</p> <p>Most Taystburger restaurants are open from 6.00am until 10.00 pm, but some remain open for 24 hours every day.</p> <p>Taystburger restaurants are generally busy at all times of day and night, but are particularly busy from 6.00am to 9.00am, 12.00pm to 2.00pm and 4.00pm to 8.00pm when customers are ordering their breakfast, lunch or evening meal.</p> <p>Taystburger is a large, quoted company that has been at the forefront of developments in the fast food industry. It is constantly experimenting and looking for ways to develop revenue streams.</p>
	<p>Steempizza is Westaria’s largest pizza restaurant, with 2,400 branches.</p> <p>The restaurants open at 11.30am every day and close at midnight.</p> <p>Steempizza sells a wide variety of pizzas of different sizes. Customers can select from a range of popular topping combinations or they can specify their own</p>

	<p>combination of toppings, each of which is priced on the menu. The company also sells a range of cold soft drinks.</p> <p>Steempizza restaurants tend to be busy from 12.00pm to 2.00pm and from 6.00pm until 10.00pm.</p>
<b>Baggetto</b>	<p>Baggetto is Westaria’s second largest sandwich chain, with 3,200 branches. It sells sandwiches made with freshly baked baguette rolls and various salads, cheeses and meats. It also sells a range of hot drinks and cold soft drinks.</p> <p>The restaurants open at 7.00am and close at 6.00pm.</p> <p>Baggetto’s peak time is from 11.00am until 1.00pm, with customers buying lunch while at work. Restaurants also tend to be busy from 7.00am until 9.00am, with customers buying toasted sandwiches for breakfast to eat at work or buying sandwiches to eat for lunch later in the day.</p>
<b>Lusc Chicken</b>	<p>Lusc Chicken is Westaria’s second largest chain of fried chicken restaurants, with 2,600 outlets across the country.</p> <p>Lusc Chicken sells fried chicken pieces, usually accompanied with fries. It also sells desserts, hot drinks and cold soft drinks.</p> <p>The restaurants open at 11.30am every day and close at 10.00pm.</p> <p>Lusc Chicken’s busy time is from 11.30am until 2.00pm and from 5.00pm until 9.00pm.</p>
<b>Bonigans</b>	<p>Bonigans is a chain of bakery shops that sell sweet and savoury products that can be eaten immediately or taken home. It has 3,400 shops.</p> <p>Bonigans sells both hot pastries, including pasties and sausage rolls, for immediate consumption. It also sells a range of ready-made sandwiches that are wrapped in plastic film. The company also sells a wide range of cakes.</p> <p>The shops open at 8.00am and close at 6.00pm. Their food counters tend to be busy from 8.00am until 9.00am, with customers buying food for breakfast and wrapped sandwiches to eat during their lunch break at work. There is a second peak from 12.00pm until 2.00pm when customers buy pastries, sandwiches and cakes for lunch.</p>

### Snakwheel’s IT system

Snakwheel has a highly integrated IT system that enables it to offer customers an efficient service. That integration involves extensive connectivity:

- Snakwheel has a data centre at a secure location, with significant high speed bandwidth for external communications. The data centre is backed up in real time to a hot backup site.

- Customers place orders using their smartphones, tablets or personal computers. Customers are required to install an app to each device that they intend to use to place orders with Snakwheel.
- Restaurants receive orders via a hardware device supplied by Snakwheel. The device is effectively a tablet that connects to Snakwheel’s data centre using mobile phone networks. Restaurants can, if they wish, integrate their Snakwheel tablets into their point of sale software or they can use them as standalone devices.
- Snakwheel’s couriers use a separate app to receive instructions and to return data to the company.

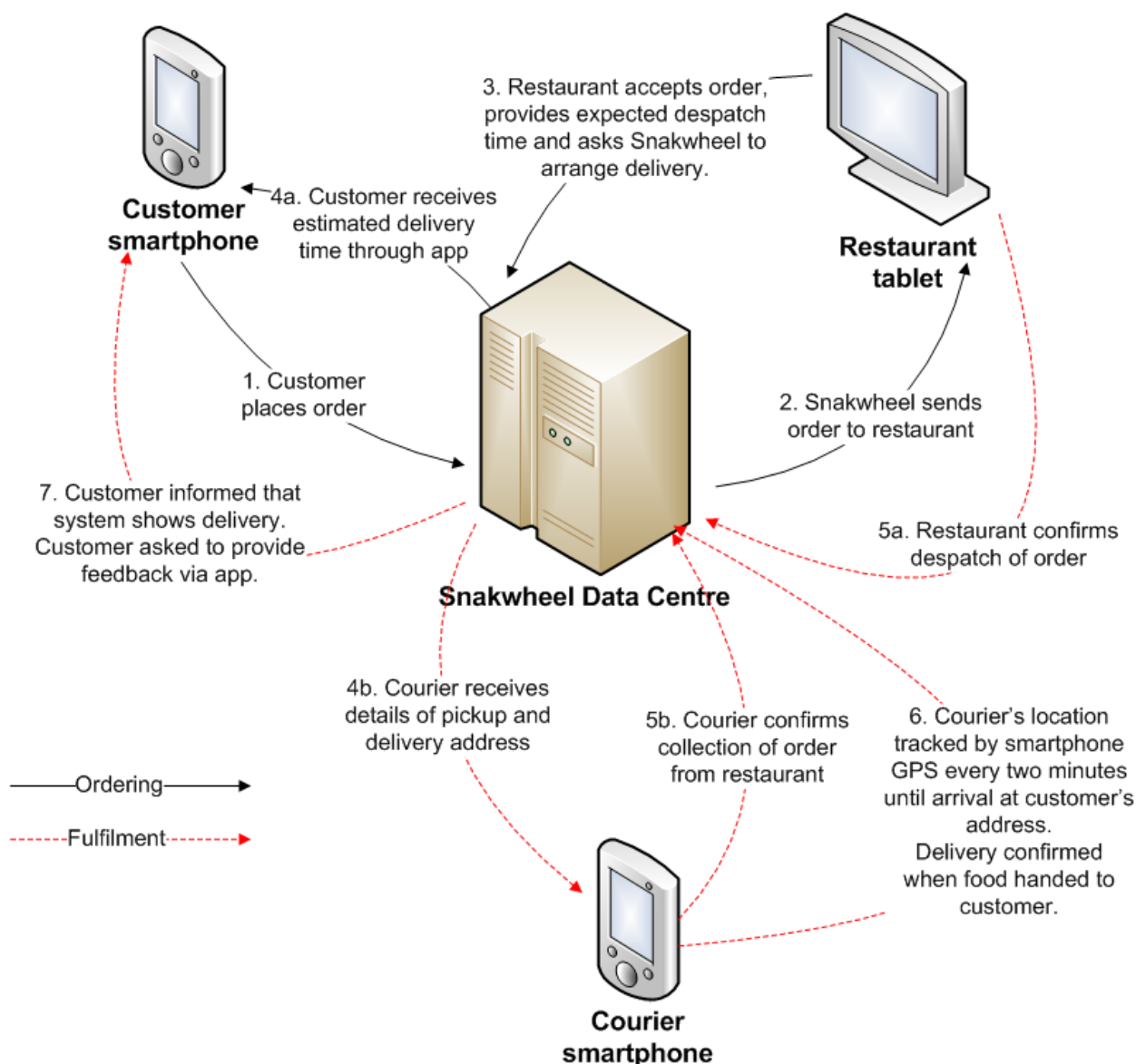
Snakwheel’s data centre has two main functions:

Managing capacity	<p>The data centre’s software keeps track of the number of orders placed at any given restaurant that have not yet been despatched. The software uses an algorithm to estimate the despatch time for any further orders that are received for that restaurant. If the food will not be delivered on time then the software warns the customer and offers a choice between accepting the delay, cancelling the order or ordering from a different chain’s menu.</p> <p>The software also keeps track of the availability of couriers who are available in each delivery district. The software uses a different algorithm to determine whether there are sufficient couriers online. If there are not, then the software invites additional couriers to make themselves available. In the meantime, customers will be warned of any expected delay in delivery.</p>
Managing operations	<p>The data centre manages the whole process of ordering and delivering food from the customer’s initial order until the food has been delivered.</p>

The following diagram is a simplified version of the data flows that occur when a customer orders food using the Snakwheel app. In this case, the order will be collected and delivered by Snakwheel’s courier.

Some customers are located within the range of more than one branch of any given restaurant chain and so Snakwheel’s software may have to select the most efficient allocation of orders, allowing for the location of available couriers and the demand at any given branch at the time of receiving the order. For example, Baggetto has several branches in some city centres and so it may be necessary to decide which will be used to fulfil a lunch order.

If a customer happens to be located in one of the few areas that does not have a local branch of each of the restaurant chains, then the app will restrict the customer’s choice to chains that are within the delivery range. The app also takes opening hours into account. For example, Bonigans branches close at 6.00pm and so customers cannot place orders after that time.



Snakwheel's operations depend heavily on 3 pieces of software:

<p>Interaction with restaurant chains (steps 2, 3 and 5a)</p>	<p>The Data Centre runs a software package that was originally designed to support online retail. That package was recommended by a third-party IT consultancy, whose programmers adapted the software to meet Snakwheel's needs.</p> <p>The software package downloads customer orders to a tablet in each restaurant from which deliveries are made. Software in each tablet then uploads the order to the restaurant's own systems. Enabling that upload was complicated by the fact that each of the fast food chains served by Snakwheel has a different system. Fortunately, there were only 5 chains and so 5 different systems.</p> <p>Enabling the tablets to interact with restaurant systems prevents the inefficiency that would otherwise have arisen. Restaurant staff would have had to have constantly checked the tablet's screen in order to tell whether any delivery orders had been received.</p>
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	<p>Snakwheel owns the rights to use this package, but it must pay a licence fee for any restaurant tablets that are added to the system.</p> <p>An IT consultancy conducts any routine maintenance on the system in return for a fee.</p>
<p>Interaction with customers (steps 1, 4a and 7)</p>	<p>Snakwheel’s in-house IT staff have developed an app that can be downloaded from the company’s website.</p> <p>The restaurant chains are responsible for updating menus and opening hours, accessing their own separate files at the Data Centre. That ensures that customers have the latest information about product availability and pricing.</p> <p>The information that is shared with the customer regarding estimated delivery times is based on data provided by the software package that powers interaction with the restaurant chains.</p>
<p>Interaction with couriers (steps 4b, 5b and 6)</p>	<p>Snakwheel’s in-house IT staff have developed an app that updates couriers about collections and deliveries and tracks couriers’ locations.</p>

The data centre records significant amounts of data in respect of each transaction. For example, the company has a substantial database of data relating to delivery times, customer satisfaction responses, ordering patterns and so on. That data has been analysed extensively to give the company detailed insights into, for example, the impact of bad weather on delivery times.

The data centre maintains detailed records of customer feedback and of the activity on individual customer accounts. That data can be used to target customers who have not ordered recently, perhaps by emailing a discount voucher.

Snakwheel’s data centre also processes payment requests from customers’ banks and credit card companies, and maintains records of payments due to restaurants, net of commissions.

### Snakwheel’s couriers

Snakwheel has 3,000 couriers who are full-time employees of the company and a further 23,000 couriers who work as independent contractors.

The full-time couriers are based in six major cities. They start work in time for breakfast deliveries on weekday mornings and finish in the late afternoon. Most of their time is spent on workplace deliveries to city-centre addresses.

Full-time couriers log in via an app on their smartphones at the start of their shift. The app confirms that they are within their designated areas of operation. Each courier then receives details of his or her first assignment, which involves collecting an order from a specific restaurant or dark kitchen and delivering it to the customer’s address. In the interests of efficiency, couriers may be allocated additional collections while they are on the way to a restaurant. That enables them to make two or more collections from the same location and deliveries to addresses in the same neighbourhood. The smartphone apps show each courier as “occupied” until all assigned deliveries have been made. Then the cycle repeats itself, with further assignments for the remainder of the day.

Couriers log out of the system at the end of their shifts.

Snakwheel reimburses full-time couriers’ expenses for the cost of using their own vehicles. Data collected from the smartphone apps enables Snakwheel to keep track of the distance

travelled during each shift by each full-time courier. The company reimburses full-time couriers on the basis of a standard rate per kilometre.

Snakwheel's independent contractors have a little more flexibility over their working hours. Each is based in one of the cities or towns in which Snakwheel operates. Couriers use their smartphone app to indicate the days and times that they wish to work. Software at the data centre matches expected courier availability against forecast demand, based on historical data. The system adjusts staffing levels by inviting couriers to change to different times or to work additional hours so that a satisfactory number of couriers is available at any given time. Couriers who demonstrate flexibility are given priority in future requests for time.

Independent contractors are not employees. They can work as many hours per week as they wish, although Snakwheel expects contractors to commit to at least 10 hours per week if they wish to remain eligible to work for the company. Contractors are expected to inform Snakwheel if they plan to take a holiday or will be absent because of illness.

Snakwheel pays independent contractors a fixed fee for every delivery. The same fee is paid regardless of the time taken or the distance travelled. Snakwheel does not pay expenses, so the contractors are expected to meet the cost of running their personal vehicles from their fee.

Independent contractors use the same app as full-time couriers. They log on at the beginning of their agreed work periods and the system checks that they are in their assigned locations. The system allocates collections and deliveries in exactly the same way as for full-time employees, including attempts to enhance efficiency.

All couriers, whether full-time or independent contractors, are evaluated on the basis of factors such as feedback received from customers and the number of deliveries made during a shift or work period.



## Extracts from Snakwheel’s annual report

### Snakwheel’s mission and values

#### Our mission

Snakwheel’s mission is to enable consumers to buy Westaria’s best fast food without leaving their homes or workplaces.

#### Our core values

Our customers come first.	Snakwheel’s customers are trusting the company to deliver delicious fast food quickly and safely.
We make life simple.	Snakwheel’s customers can use a single app to order their favourite items from their preferred restaurants.
We are team players.	Snakwheel works closely with restaurant chains to create sustainable value for their stakeholders and for ours.
We make things happen.	Snakwheel has grown steadily since its creation. We are constantly improving our service and attracting new customers.
We take care of our employees.	Snakwheel provides challenging and secure employment.
We create opportunity.	Snakwheel offers an environment in which the independent contractors who deliver for us can flourish as individuals and work at a pace that suits their needs.

## Snakwheel's Board of directors

### *Esma Asil, Non-Executive Chair*

Esma has had a long and distinguished banking career, rising to the main board of a major commercial bank. In addition to her role on Snakwheel's Board she serves on the Board of two major charities.

Esma joined Snakwheel's Board in 2018.

### *Ahmad Farah, Chief Executive Officer (CEO)*

Ahmad has a PhD in software engineering.

Ahmad joined Snakwheel as a senior programmer in 2009. He was instrumental in developing the specification for a major update to the company's software. Ahmad was promoted to Head of Data Centre in 2014. He joined the Board as Chief Information Officer in 2016 and was promoted to CEO in 2019.

### *Eleni Sakellariou, Chief Operating Officer (COO)*

Eleni joined Taystburger's graduate entry scheme after graduating from university. After a spell as assistant manager at one of the company's largest branches, she moved to the company's Head Office, specialising in logistics.

Eleni joined Snakwheel as Head of Fulfilment in 2014. She was promoted to the Board as Chief Operating Officer in 2017.

### *Peter Fodya, Chief Finance Officer (CFO)*

Peter is a qualified accountant. He trained with Westaria Bread, a major food manufacturer. Peter subsequently held a number of roles, including a period as head of internal audit with a major airline.

Peter joined Snakwheel's Board as Chief Finance Officer in 2018.

### *Rashida Tull, Marketing Director*

Rashida's background is in retail marketing. She has held several senior marketing positions, including Head of Promotion at Westaria's second largest supermarket chain.

Rashida joined Snakwheel as a senior marketing manager in 2016. She was promoted to the Board in 2020.

### *Joel Williams, Chief Information Officer (CIO)*

Joel has held a number of senior IT roles, including Head of Software Development at a major manufacturer of mobile phones.

Joel joined Snakwheel as Head of IT Security in 2017. He was promoted to the Board in 2021.

### *Yu Tsai, Senior Independent Non-Executive Director*

Yu has had a long and successful career in Westaria Rail. She started as a graduate trainee in Human Resources and worked her way up to a seat on the Board before retiring from full-time employment. She continues to advise the Westarian Government on matters relating to public transport.

Yu joined the Snakwheel Board in 2021.

*Volodymyr Rizun, Independent Non-Executive Director*

Volodymyr has served on the board of a major retailer. He has retired from full-time employment and was invited onto Snakwheel’s Board as a non-executive in 2020.

*Eliana Nakano, Independent Non-Executive Director*

Eliana has worked extensively in the leisure industry. Her career has included 5 years as Finance Director of a major cruise line. She joined Snakwheel’s Board as a non-executive director in 2019.

Ahmad Farah Chief Executive Officer			
Eleni Sakellariou Chief Operating Officer	Peter Fodya Chief Finance Officer	Rashida Tull Marketing Director	Joel Williams Chief Information Officer
<ul style="list-style-type: none"> <li>Order fulfilment</li> <li>Human relations</li> </ul>	<ul style="list-style-type: none"> <li>Financial reporting</li> <li>Management accounting</li> </ul>	<ul style="list-style-type: none"> <li>Advertising</li> <li>Relationships with restaurants</li> </ul>	<ul style="list-style-type: none"> <li>IT operations</li> <li>Data management</li> </ul>

	Board committees			
	Audit	Risk	Remuneration	Nomination
Esmā Asil Non-Executive Chair	◆		◆	◆
Yu Tsai Senior Independent Non-Executive Director	◆	◆		◆
Volodymyr Rizun Independent Non-Executive Director		◆	◆	◆
Eliana Nakano Independent Non-Executive Director	◆	◆	◆	

### Snakwheel's principal risks

Risk impact	Risk mitigation
<p>Consumer demand for the services provided by fast food platforms may decline.</p>	<p>Snakwheel advertises its service heavily in order to attract new customers.</p> <p>Delivery staff are required to complete online training in customer service before they can make their first delivery.</p> <p>Snakwheel makes heavy use of customer feedback to ensure that they are satisfied with their service.</p> <p>Snakwheel works closely with current and prospective restaurant partners to innovate in terms of updating menu options.</p>
<p>Restaurants may decide to terminate their arrangements with Snakwheel and rely on their own websites, apps and delivery services.</p>	<p>Snakwheel works constantly to develop ways to add value to the operations of its restaurant partners.</p> <p>Few restaurant chains, if any, could afford to create IT systems that would rival Snakwheel's in terms of the ability to gather data about customer behaviour and to expedite home deliveries.</p> <p>All historical data remains the property of Snakwheel.</p>
<p>Snakwheel depends on the brand reputations of the restaurants that it serves.</p>	<p>Snakwheel works with leading brands, who rely on their reputations to maintain their own businesses.</p> <p>Snakwheel provides feedback to restaurants on any issues that affect customer satisfaction, including delayed deliveries or problems with food quality.</p>
<p>Snakwheel's IT systems are complex and highly integrated. Orders cannot be processed if any part of the system fails.</p>	<p>Snakwheel has a dedicated Chief Information Officer (CIO) on its Board. The CIO provides strategic leadership on all aspects of IT operations and security.</p> <p>The company's Data Centre is staffed by highly qualified experts in their respective areas of specialisation.</p> <p>A hot backup site at a remote location mirrors the Data Centre at all times, thereby reducing the company's dependence on the primary site.</p>
<p>Customers can store personal data, including payment details, in their accounts. Any breach of privacy will impact customer confidence.</p>	<p>Snakwheel invests heavily in IT security.</p> <p>Customers receive regular messages concerning the security of their accounts.</p>

<p>Delivery services are heavily dependent on the recruitment and retention of couriers who can provide their own transport.</p>	<p>Snakwheel pays close attention to the numbers of applicants for courier positions, both full-time and as independent contractors. Remuneration levels are comparable with those offered by competitors.</p>
--	--

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

	<b>2021</b>	<b>2020</b>
	<b>W\$</b>	<b>W\$</b>
	<b>million</b>	<b>million</b>
Revenue	1,264	1,062
Operating costs	<u>(822)</u>	<u>(722)</u>
Operating profit	442	340
Finance costs	<u>(74)</u>	<u>(66)</u>
	368	274
Tax expense	<u>(52)</u>	<u>(38)</u>
Profit for the year	<u><u>316</u></u>	<u><u>236</u></u>

**Snakwheel Group**  
**Consolidated statement of changes in equity**  
**for the year ended 31 December 2021**

	<b>Share</b>	<b>Retained</b>	<b>Total</b>
	<b>capital</b>	<b>earnings</b>	<b>W\$</b>
	<b>W\$</b>	<b>W\$</b>	<b>W\$</b>
	<b>million</b>	<b>million</b>	<b>million</b>
Opening balance	1,000	5,160	6,160
Profit for year		316	316
Dividend		(110)	(110)
Closing balance	<u>1,000</u>	<u>5,366</u>	<u>6,366</u>

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

	<b>2021</b>	<b>2020</b>
	<b>W\$</b>	<b>W\$</b>
	<b>million</b>	<b>million</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	4,424	4,200
Goodwill	840	840
Software	1,896	1,809
	<u>7,160</u>	<u>6,849</u>
<b>Current assets</b>		
Trade receivables	108	92
Bank	237	228
	<u>345</u>	<u>320</u>
<b>Total assets</b>	<u><u>7,505</u></u>	<u><u>7,169</u></u>
<b>Equity</b>		
Share capital	1,000	1,000
Retained earnings	5,366	5,160
	<u>6,366</u>	<u>6,160</u>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	983	885
<b>Current liabilities</b>		
Trade payables	101	85
Tax liability	55	39
	<u>156</u>	<u>124</u>
<b>Total equity and liabilities</b>	<u><u>7,505</u></u>	<u><u>7,169</u></u>

Extract from competitor's financial statements

**Munchbike Group**

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

	<b>2021</b>	<b>2020</b>
	<b>W\$</b>	<b>W\$</b>
	<b>million</b>	<b>million</b>
Revenue	1,100	892
Operating costs	(737)	(523)
Operating profit	363	369
Finance costs	(96)	(108)
	267	261
Tax expense	(37)	(37)
Profit for the year	230	224

**Munchbike Group**

**Consolidated statement of changes in equity  
for the year ended 31 December 2021**

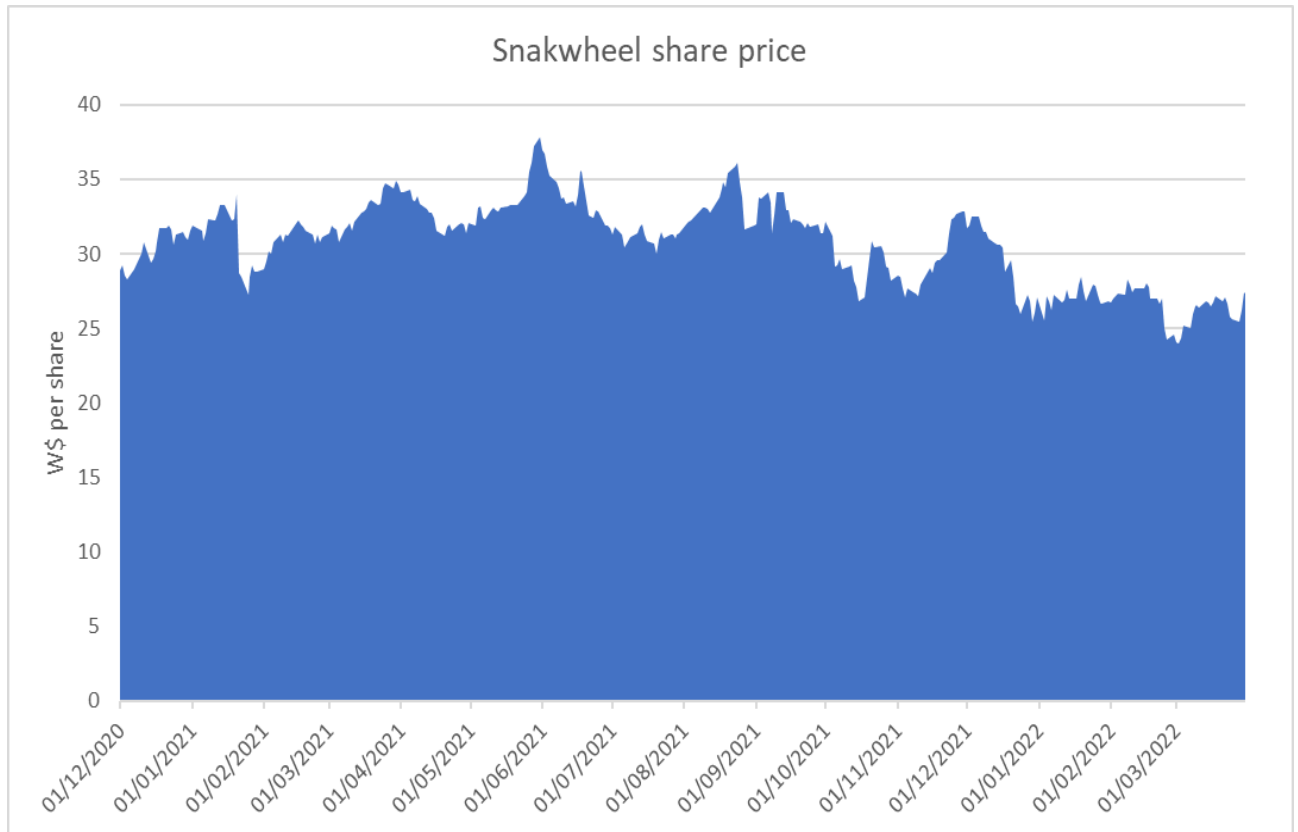
	<b>Share capital</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>W\$</b>	<b>W\$</b>	<b>W\$</b>
	<b>million</b>	<b>million</b>	<b>million</b>
Opening balance	700	4,305	5,005
Profit for year		230	230
Dividend		(113)	(113)
Closing balance	700	4,422	5,122



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

	<b>2021</b>	<b>2020</b>
	<b>W\$</b>	<b>W\$</b>
	<b>million</b>	<b>million</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3,893	3,747
Goodwill	300	300
Software	1,752	1,620
	<u>5,945</u>	<u>5,667</u>
<b>Current assets</b>		
Trade receivables	132	125
Bank	162	354
	<u>294</u>	<u>479</u>
<b>Total assets</b>	<u><u>6,239</u></u>	<u><u>6,146</u></u>
<b>Equity</b>		
Share capital	700	700
Retained earnings	4,422	4,305
	<u>5,122</u>	<u>5,005</u>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	960	991
<b>Current liabilities</b>		
Trade payables	121	116
Tax liability	36	34
	<u>157</u>	<u>150</u>
<b>Total equity and liabilities</b>	<u><u>6,239</u></u>	<u><u>6,146</u></u>

## Share price history

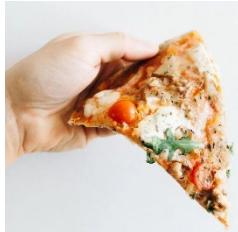


Snakwheel's beta is 0.7.

## News stories

# Happy Comic

## Readers' questions



**Question:** My parents sometimes use the Snakwheel app on their smartphones to order food from Steempizza. They are complaining that they have to scroll down to get to the Steempizza tab on the app. It used to be near the top. Why is that?

Martine, age 12

**Answer:** Snakwheel allows you to order food from several different restaurant chains. The chains believe that they will sell more meals if their tabs are near the top when the app is opened. The restaurant chains pay a fee to be near the top. Presumably, one of the other chains offered to pay more for a better place and pushed Steempizza down the list.

All of the home delivery services do this.

If your parents like pizza then I am sure that they will be prepared to scroll down until they find Steempizza on the app.

# Happy Comic

## Readers' questions



**Question:** My family was staying overnight at a hotel after visiting my aunt and uncle. My parents were ordering food on the Snakwheel app. I wanted a burger and fries from Taystburger and my sister wanted a cheese and tomato baguette from Baggetto. We couldn't find the Baggetto tab anywhere on the app. It was there next day when we got home and were ordering lunch. Why did Baggetto disappear from the app and then come back?

Tom, age 13

**Answer:** There are two possibilities.

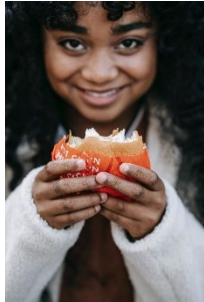
Apps can track the location of the device that is being used to communicate with an IT network. Fast food delivery services like Snakwheel check the location of the user's smartphone or tablet when the user signs onto the app. Software identifies the restaurants that are close enough to the user to enable a delivery and only those menus are shown on the app. Perhaps you were within delivery range of the nearest Taystburger, but not the nearest Baggetto.

The app also checks which restaurants are open when the order is being placed. Baggetto's restaurants close at 6.00pm while Taystburger's are open until much later. The app will only display tabs for nearby restaurants that are actually open for business.

I hope that you enjoyed your burger and fries.

# Westaria Telegraph

## The business of home delivery



The market for restaurant food has been transformed by the so-called platforms that offer online ordering and delivery. There is a growing trend for consumers to use those services as an alternative to visiting their favourite restaurant and eating there.

Restaurants are finding that this phenomenon is increasing total demand for restaurant food. Consumers enjoy the convenience, especially when the alternative is often to eat in a fast food restaurant that has been designed to look bright and inviting from the outside, but quickly proves to be designed to discourage customers from sitting and lingering over their meals.

Delivering food frees restaurants from the constraints imposed by the number of guests who can be seated at any given time. Most restaurant kitchens can cope with home delivery orders even when all of the tables are full. That can make busy periods, such as weekends, far more lucrative for restaurant owners.

85% of deliveries are to homes and 15% to work addresses. Weekends are significantly busier than weekdays.

Collectively, the food delivery platforms have achieved a 55% penetration of the total potential Westarian market for fast food deliveries. Industry analysts believe that the market is now mature and that penetration is unlikely ever to exceed 65%.

Consumers tend to be satisfied with the service that they receive but expect deliveries to be prompt. Delivery times of up to 1 hour are acceptable, especially at peak times, but any longer tends to cause complaints.

The vast majority of consumers use a single portal for all of their orders. Hardly any download two or more apps. Customers usually remain loyal once they have signed up. Fewer than 20% of those who sign up for a portal subsequently change to another.

## Extracts from Mo Terbike's Blog

### Good night last night!



I have just broken my personal record for a single evening's earnings since I started delivering for Munchbike. I have lived in Newtown all my life and I was really excited when our local soccer team made it through to the Cup Final, but I decided that there would be lots of dedicated fans who wanted to watch the game on television and they would be too excited to cook.

I logged into the Munchbike delivery app at 3.00 in the afternoon and was given a job within 2 minutes. I made my collection and delivery and had another job within seconds of confirming that I was available again. It was like that all night! It was nothing like a typical midweek evening when it can take up to 20 minutes to be assigned a collection after confirming a delivery.

I didn't realise until much later in the evening that most of the other couriers in town had decided not to work because they wanted to watch the game. That meant that there was more than enough work to keep the few couriers who were working busy all night, which is great when you get paid a fee for every delivery.

Luckily for me, Newtown United scored a goal early in the match and were ahead all through the game. The customers were really happy and they were really generous with their tips!

I kept going until the last local restaurant closed at 11.00 that night.

#### COMMENTS

I wonder whether the customers would have been as generous if their team had been losing the game.

Burger Fan

I was also making deliveries, but in the hometown of your team's opponents. I was just as busy as you were.

Pizza Warrior

### Courier blues



Munchbike asked me to work from 5.00pm to 10.00pm last night because their system reckoned that they would be short of couriers. I arrived in my district in plenty of time and logged in through the app. And then ... nothing! It was 5.30pm before I was given my first delivery and work was slow all night. I'm not sure why people weren't ordering food for delivery, but I earned hardly anything. I only made 6 deliveries in the course of the evening.

The manager at Brineburger lets me sit in his restaurant when things are quiet and I spent the last 90 minutes of my shift just sitting there wishing that my phone

would ping to say that I had a collection. At least the staff took pity on me and gave me a free double burger and large fries at closing time, so I was well fed before I went home.

.

### **COMMENTS**

I hate it when that happens. It is really boring when there is nothing to do and we only get fees and gratuities when we make deliveries.

Hotbox Hero

I have evenings like that too, although the platforms are getting better at making sure we're busy. They have worked out that they lose couriers when there are too many quiet shifts.

Speed Waiter



## 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](#)

**Peter Fodya, Chief Finance Officer, calls you to his workspace and says:**

"I have printed you an extract from a Board minute.

I will be meeting with the Chief Executive Officer to discuss this proposal further and I require the following from you:

- First, identify four of Snakwheel's intangible value drivers and evaluate how extending our service to include local independent restaurants will impact upon them.

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

- Second, evaluate the implications for this venture of an increase in interest rates."

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

**The Board minute extract referred to by Peter can be viewed by clicking the Reference Material button above.**

**Board minute extract: local restaurants**

Rashida Tull, Marketing Director, proposed that Snakwheel should seek to expand by offering a delivery service for local independent restaurants. These are not part of any chain and usually have only a single outlet which serves its localised area.

Snakwheel has already been approached by the owners of 120 local restaurants, many of which have strong reputations for quality and have substantial revenues. These include independent fast food restaurants and also more upmarket restaurants that focus on table service for sit-in customers. Rashida believes that many more would come forward if Snakwheel announced an intention to serve independent restaurants.

Rashida proposed that Snakwheel should proceed with this venture, subject to the following:

- Restaurants will not be accepted if their primary products compete directly with those of the major fast food chains who currently use our service. For example, local pizza restaurants will not be accepted because they would be taking business from Steempizza.
- Local restaurants will have to offer a home delivery menu of meals that they can pack ready to be transported in the insulated boxes used by Snakwheel's couriers. For example, soups and stews could be sold in plastic containers and customers could use their own plates and cutlery to serve them. In fact, a wide range of items could be packaged for delivery.

Ahmad Farah, Chief Executive Officer, said that he had read a recent news report that interest rates were expected to rise. He asked Rashida if she had factored that into her proposal.

Reference Material

Pre-seen

Draft your response to Peter'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, you receive the following email:

**From:** Peter Fodya, Chief Finance Officer

**To:** Senior Finance Manager

**Subject:** FWD: System upgrade

Hello

I have forwarded an email that I received from Joel Williams, our Chief Information Officer (CIO).

I need your help with two matters:

- First, identify and evaluate both the advantages and disadvantages of obtaining an E\$ loan from an Eastlandian bank to finance the system upgrade.

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

- Second, identify and evaluate four sources of risk associated with relying on the Eastlandian IT firm identified by the CIO to upgrade our system in accordance with its quote.

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

Best wishes

Peter

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

**From:** Joel Williams, Chief Information Officer  
**To:** Peter Fodya, Chief Finance Officer  
**Subject:** System upgrade

Hello Peter

Extending our service to local independent restaurants will have significant implications for our IT systems.

In the short term, we can create temporary capacity by buying additional licences for existing software. That will enable us to start working with local restaurants immediately, but it will be inefficient and insecure in the long term.

I asked six IT firms to submit quotes for an upgrade to our system that would meet our increased IT needs. One of those firms is based in Eastland and the other five in Westaria.

The Eastlandian IT firm's quote indicates that the upgrade will take 22 months from commencement:

	Month	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
1. Additional licences		█																						
2. Initial survey		█	█	█	█	█	█	█																
3. Software development and testing									█	█	█	█	█	█	█	█	█	█	█					
4. Additional hardware																		█						
5. Installation, setup and training																			█	█	█	█	█	█

The Westarian IT firms would all require at least 4-6 months longer to develop and test the software and all would require at least 6-8 months longer to complete the upgrade. The Westarian firms' quotes were also at least 15% more expensive than the Eastlandian firm's.

The Eastlandian IT firm insists on being paid in its home currency, which is the E\$. It will charge E\$906 million, which is equivalent to W\$940 million at the current exchange rate. The firm will require us to pay 50% of the cost of each stage at the stage's commencement and the remainder at completion.

	Timing	E\$ million
1. Additional licences	Month 0	57
2. Initial survey	Months 0-6	26
3. Software development and testing	Months 7-16	486
4. Additional hardware	Month 16	200
5. Installation, setup and training	Months 16-22	137
Total cost		906

Best Wishes  
Joel

Reference Material

Pre-seen

Write your response to Peter's requests in the box below.

**From:** Senior Finance Manager  
**To:** Peter Fodya, Chief Finance Officer  
**Subject:** RE: FWD: System upgrade

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

Three months later, Peter Fodya stops by your workspace and says:

"I have printed a copy of a news article that has just gone online. Sadly, it reflects the feedback that we have been getting. Customers continue to be happy with our fast food deliveries, but 60% of the feedback relating to the local independent restaurants is negative. We have signed up 800 restaurants across the country, so this is a serious matter.

Part of the problem is that we had to install temporary systems in the local independent restaurants and those systems have not always been reliable. Orders placed using our app are meant to be transmitted to restaurants immediately, but sometimes they are delayed by up to 20 minutes. These temporary systems are also struggling to schedule couriers to pick up meals immediately after they have been cooked.

A further problem is that many local restaurants are careless when they are preparing meals for home delivery. Chefs at these restaurants are used to cooking meals for immediate consumption. Many chefs are struggling to create good quality meals that can survive being packaged and delivered by a courier. Restaurant owners are often dismissive of poor customer feedback, claiming that they are still experimenting with their menus and that quality will improve in time.

Please advise me on the following before I report to the Board:

- First, evaluate the argument that the problems with the temporary systems imply poor governance with respect to Snakwheel's digital strategy.

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

- Second, identify the difficulties that Snakwheel will face in establishing an effective control environment to ensure that food delivered from local independent restaurants is of good quality and recommend with reasons how the control environment might be improved."

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

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



# Westaria Daily News

## Food critic - Snakwheel's new venture disappoints



Snakwheel's new local restaurant service was launched 2 months ago, with a major advertising campaign that promised "Food from your favourite local restaurant delivered to your door". Sadly, social media posts have been full of complaints about slow service and poor quality meals.

I decided to try the service for myself. I used the Snakwheel app to order a pasta dish with a side order of garlic bread from one of the four local independent restaurants that were listed in my hometown. Ordering was easy and I received a message that my meal was being prepared and would be delivered within 45 minutes.

My meal arrived an hour and 20 minutes later. The pasta was cold, and the garlic bread was dry and hard. I was disappointed because the restaurant is one of my favourites and I have always enjoyed eating there. Furthermore, the meal was expensive in comparison to the fast food that I usually order.

I used the Snakwheel app to review my experience and gave 0 out of 5 for both speed and quality. I received an immediate automated response thanking me for my feedback and promising to do better in future.

I threw my pasta meal away and used the Snakwheel app to order a burger and fries from Taystburger. That meal arrived promptly, and the food was hot and delicious.

Reference Material

Pre-seen

Draft your response to Peter'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. Below the toolbar is a large empty text area for drafting the response.



Thank you for completing the Strategic Case Study Exam.

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

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



## Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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

Click **Next** to start the test.

This examination is structured as follows:

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

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

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

Reference Material

Pre-seen

You have received the following email:

**From:** Peter Fodya, Chief Finance Officer

**To:** Senior Finance Manager

**Subject:** Gratuities paid to couriers

I have attached a news article that has just come online. It has already attracted negative comments on social media.

Snakwheel's couriers are not legally entitled to the minimum wage of W\$10.00 per hour. We pay our full-time couriers W\$8.00 per hour, which is permitted by law because they are restaurant workers. Couriers who work as independent contractors are paid a fee for each delivery, with an expectation that they will make between W\$6.00 and W\$9.00 per hour from those fees. The independent contractors are self-employed and so are not covered by Westaria's minimum wage legislation.

We are satisfied that the couriers who deliver for Snakwheel are not underpaid because we expect them to earn an average of W\$5.00 per hour in gratuities, all of which are paid in cash directly to the courier. Gratuities are at the discretion of the customer.

I need your advice on two matters before I discuss this news story with the rest of the Board:

- First, evaluate the argument that it is unethical for us to rely on customer gratuities to ensure that our couriers earn a reasonable income.

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

- Second, identify the challenges associated with conducting an analysis of our remuneration policy relating to couriers, focussing on political, legal, and social factors, and recommend responses we could make to any challenges identified.

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

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

# Westaria Telegraph

## Restaurant industry faces criticism over minimum wage

Recent research published by the University of Westaria has revealed that many employees in the restaurant industry are heavily dependent upon gratuities (or “tips”) from customers. Westarian law sets the minimum hourly rate for full-time staff at W\$10.00 per hour. That is intended to ensure that all full-time employees can achieve an acceptable standard of living. There is, however, an exception for restaurant staff because employers are entitled to subtract the estimated value of gratuities from the W\$10.00 minimum.



While some restaurants pay their staff more than the W\$10.00 minimum, the average hourly rate according to the research is W\$7.50 per hour. On average, restaurant workers earn W\$6.00 per hour from gratuities, although the amounts vary significantly.

Gratuities are either paid directly to employees in cash or some restaurants permit customers to add a gratuity to their bill when they are settling it by credit card.

The research report concluded that it is part of Westarian culture for customers to pay gratuities to waiting staff in restaurants and to couriers making food deliveries. Most customers believe that their gratuities are gifts given in return for good service, such as fast and friendly service, and are not part of the recipients' basic wages.

Reference Material

Pre-seen

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

**From:** Senior Finance Manager  
**To:** Peter Fodya, Chief Finance Officer  
**Subject: RE:** Gratuities paid to couriers

Rich text editor toolbar with icons for: New document, Cut, Copy, Paste, Undo, Redo, Table, Bold (B), Italic (I), Underline (U), Strikethrough (ABC), Subscript (x<sub>2</sub>), Superscript (x<sup>2</sup>), Link (Ix), Paragraph dropdown, Table dropdown, Bulleted list, Numbered list, Indent left, Indent right, Decrease indent, Increase indent.



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

A month later, Peter Fodya stops by your workspace and says:

"I have brought you an extract from the minutes of yesterday's Board meeting. The Chief Executive Officer (CEO) has asked me to explain two matters that I raised during the meeting and I need your help with the following:

- First, identify and evaluate the difficulties we could face when attempting to predict how an increase in courier pay might affect Snakwheel's share price. You should ignore the concerns expressed by the institutional shareholder.

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

- Second, evaluate the implications of Snakwheel's shareholders expressing concern about the company's failure to comply with its core values. You should use the concerns raised by the institutional investor for illustration."

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

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

**Board minutes extract: controversy over courier pay**

Eleni Sakellariou, Chief Operating Officer (COO), told the Board that there had been continuing negative feedback because Snakwheel pays its couriers less than the legal minimum wage.

Snakwheel's 3,000 full-time couriers receive W\$8.00 per hour, which is less than the legal minimum of W\$10.00. The 23,000 couriers who work as independent contractors earn an average of between W\$6.00 and W\$9.00 per hour from delivery fees. They are self-employed contractors and so are not protected by minimum wage law.

All of Snakwheel's couriers are believed to earn an average of W\$5.00 per hour from gratuities paid by customers when their orders are delivered.

The Board discussed the possibility of increasing the hourly rate paid to full-time couriers to W\$10.00 and also increasing the delivery fee for independent contractors by 25%. Snakwheel couriers would then be the best paid in the home delivery industry.

There was some debate as to whether it would be possible to increase the commission charged to restaurants in order to cover the cost of these increases.

Peter Fodya, Chief Finance Officer (CFO), warned the Board that the pay increase could affect Snakwheel's share price. He also warned that a major institutional shareholder that owns 10% of Snakwheel's equity had expressed concern that courier pay had put the company in breach of at least two of its core values:

We take care of our employees.	Snakwheel provides challenging and secure employment.
We create opportunity.	Snakwheel offers an environment in which the independent contractors who deliver for us can flourish as individuals and work at a pace that suits their needs.

Reference Material

Pre-seen

Provide your response to Peter'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](#)

Two months later, you receive the following email:

**From:** Peter Fodya, Chief Finance Officer

**To:** Senior Finance Manager

**Subject:** Courier pay

Hi

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

I require your advice on two matters before the Board meets again:

- First, evaluate the arguments that the non-executive directors should not be commenting on courier pay because that is an operational matter. **[sub-task (a) = 60%]**
- Second, recommend with reasons the manner in which the implementation of Yu Tsai's (Senior Independent Non-Executive Director) proposal might be reflected in the social and relationship capital section of our integrated report (<IR>). **[sub-task (b) = 40%]**

Thanks  
Peter

The extract forwarded by Peter can be viewed by clicking the Reference Material button above.

**Board minutes extract: customer gratuities**

The Chief Executive Officer (CEO) confirmed that the position with regard to courier pay remains unchanged. Snakwheel's 3,000 full-time couriers receive W\$8.00 per hour, which is less than the legal minimum of W\$10.00. The 23,000 couriers who work as independent contractors earn an average of between W\$6.00 and W\$9.00 per hour from delivery fees. They are self-employed contractors and so are not protected by minimum wage law.

All contractors are believed to earn an average of W\$5.00 per hour from gratuities paid in cash by customers on delivery of their orders. That belief is based on feedback from Snakwheel's regular surveys of customer satisfaction that include questions about gratuities.

Yu Tsai, Senior Independent Non-Executive Director, expressed concern that Snakwheel's directors were relying on voluntary gratuities from customers to make up courier pay. She was particularly concerned that Snakwheel had no objective evidence concerning the amounts earned by individual couriers from gratuities.

Yu Tsai proposed that Snakwheel should modify its ordering system so that customers can add a gratuity to their final payment, if they wish to do so. That would be easier than customers having to find cash to pay gratuities. It would also mean that Snakwheel would have a record of gratuities collected on behalf of its couriers. She further proposed that Snakwheel could use gratuity payments to fund an increase in hourly rates and delivery fees for independent contractors, rather than passing gratuities on to individual couriers. She believed that all couriers could then benefit fairly.

Several Board members argued that Yu Tsai's proposal would discourage customers because they would view their gratuities as an increase in the cost of their meal rather than as a gift to their courier. It would also remove much of the incentive for couriers to provide a fast and efficient service. Eleni Sakellariou, Chief Operating Officer (COO), commented that the non-executive directors should not be commenting on courier pay because that is an operational matter.

Reference Material

Pre-seen

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

**From:** Peter Fodya, Chief Finance Officer

**To:** Senior Finance Manager

**Subject: RE:** Courier pay

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.



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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.



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

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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:** Peter Fodya, Chief Finance Officer  
**To:** Senior Finance Manager  
**Subject:** FWD: Ransomware threat

Hello

I have forwarded you a copy of an email that has just been circulated to the Snakwheel Board.

The Board will be meeting later today. Before then, I would appreciate your advice.

- First, explain and then evaluate the likely outcome for Snakwheel of each of the following scenarios:
  - The ransomware is triggered and our data files are encrypted.
  - The ransomware is triggered and the attacker abuses customer data.
  - We pay the W\$50 million in cryptocurrency and the ransomware is not triggered.

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

- Second, in terms of responding to this threat, explain the relative responsibilities of the Chief Information Officer (CIO) and the Board as a whole.

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

Regards  
Peter

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

**From:** Joel Williams, Chief Information Officer (CIO)

**To:** All directors

**Subject:** Ransomware threat

Hello

Snakwheel's Head of IT Security has just received an anonymous email that threatens to encrypt all of the data files at the Snakwheel Data Centre unless we pay a ransom of W\$50 million in cryptocurrency.

We frequently receive this type of threat against our systems. We evaluate them all and respond in a manner that reflects the credibility of the threat. In this case, the email contains technical details of our hardware and software systems, suggesting that the person making the threat is highly skilled in IT security and has been able to access our systems. Because of this, our Head of IT Security believes that there is a credible threat.

If our files are encrypted then it will be impossible to access them in any way unless they are first decrypted. It is unlikely that we will ever be able to decrypt the files. It is also possible that the attacker could copy files, including customers' personal data, before encrypting it.

We have a hot backup site that mirrors our Data Centre, but our Head of IT Security believes that the backup files are at the same risk of encryption as the files in the Data Centre.

The email gives us 48 hours to pay before the ransomware is triggered. We have been warned not to contact the Police.

Regards

Joel

Reference Material

Pre-seen

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

**From:** Senior Finance Manager  
**To:** Peter Fodya, Chief Finance Officer  
**Subject:** RE: FWD: Ransomware threat

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

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

A few hours later, Peter Fodya says to you:

"I have brought you an extract from our emergency Board meeting.

I need your advice on two matters arising from this minute:

- First, evaluate the possibility that the steady decline in our share price could be as a result of short selling by the person making the ransomware threat.

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

- Second, explain why the proposed contract with VDS could expose Snakwheel to currency risks and explain how their potential impacts could be evaluated."

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

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

**Board minute extract: Ransomware threat**

Esma Asil, Non-Executive Chair, informed the Board that Snakwheel's share price has been falling steadily for the past 2 weeks. She had discussed this with the Chief Executive Officer (CEO) and the Chief Finance Officer (CFO) and neither had been able to explain it. However the CFO has now said that the falling share price could be as a result of the person making the ransomware threat short selling our shares.

Joel Williams, Chief Information Officer (CIO), told the Board that he had spoken to representatives of Volcano Data Security (VDS), a data security company based in Eastlandia, where the currency is the E\$. They could install copies of our software at their secure computer centre in Eastlandia, duplicate the data at Snakwheel's Data Centre, scan for any malware in our data files and maintain a hot backup of our data that will be monitored and kept safe from malware at all times.

VDS could create a secure duplicate of our data within 6 hours of us appointing them. The downside is that they would charge us the equivalent of W\$20 million per year, but paid in E\$, and we would have to commit to a 6-year contract.

There was considerable discussion about this proposal. The CEO concluded that the service was very expensive and the currency risk associated with it made him reluctant to agree to this commitment.

Reference Material

Pre-seen

Provide your response to Peter's requests in the box below.

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

The following morning, Peter Fodya stops by your desk and says:

"I have printed out a news report that has just gone online. The Board decided not to pay the ransom. We also decided not to pay a third party to take over our IT security management.

The Board is meeting this afternoon to discuss some of the implications of these events. I need your advice on two matters:

- First, evaluate the ethical arguments for and against informing the Police rather than paying the ransom.

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

- Second, discuss our cyber security objectives of availability and confidentiality given the implications of the ransomware threat and explain how any shortcomings could be rectified."

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

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



# Westaria Telegraph

## Police arrest suspected blackmailers



Detectives from the Westarian Police Service have arrested three people who are suspected of attempting to extort a W\$50 million ransom from Snakwheel, the fast food delivery company.

The officer in charge of the case revealed that Snakwheel had contacted the Police rather than paying the ransom. The Police Service's Cyber Crime Division was able to track emails between Snakwheel's Board and the blackmailers and managed to determine their location.

The threatened encryption of Snakwheel's data had actually been a bluff. One of the suspects had previously been employed at Snakwheel's Data Centre and she had provided details of its operations that had enabled her accomplices to make a convincing threat.

Reference Material

Pre-seen

Provide your response to Peter's requests in the box below.

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## Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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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) 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

**Peter Fodya, Chief Finance Officer (CFO), stops at your workspace and says:**

"Please read this news report. Luvleegift has approached Snakwheel's Board with an interesting proposition.

Luvleegift outlets make goods within an hour of them being ordered online. The company is considering the benefits of offering a delivery service as an alternative to customers collecting goods in person. It has been suggested that we could provide a rapid delivery service using our couriers. The gifts are small and light and so would fit inside our couriers' insulated boxes. Luvleegift is offering us a commission based on the value of the gifts for delivery.

I need your advice on the following before the Board meets to discuss this:

- First, recommend with reasons how both competitor analysis and customer analysis, focussed on Luvleegift, should be used to help the Board evaluate Luvleegift's proposal.

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

- Second, assuming that we proceed with this venture, evaluate with reasons the potential outcomes for Snakwheel of each of the following scenarios:
  - Westarian interest rates increase.
  - Reasnamart Supermarket significantly increases the rent charged for Luvleegift's retail units."

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

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

# Westaria Telegraph

## Luvleegift opens another 50 supermarket units



Luvleegift, the personalised gift company, has opened a further 50 outlets, bringing its total to 210. The company has adopted the store-within-a-store model. All of its outlets are small self-contained retail units rented within branches of Reasnamart Supermarket.

Luvleegift's customers can select a gift from the company's website and can personalise it in a number of different ways. Customers can order bars of chocolate with a friend or relative's name printed on the packaging, soft toys with T-shirts that have been embroidered with a name or message and 3-dimensional (3D) models of people or pets that are created from photographs uploaded to Luvleegift's site by the customer.

All of the personalisation is carried out by computerised printers, embroidery machines and 3D printers at the customer's preferred branch. Goods are ready for collection within an hour of placing an order. This service is offered from 8.00 am until 10.00 pm, 7 days a week.

Gifts are wrapped and ready to present to their recipient. Customers can also order personalised greeting cards and matching gift tags. The service is expensive, but it has proved popular.

Luvleegift is not the only company that sells personalised items online, but none of its competitors can match it for speed of fulfilment. A forgotten birthday can be dealt with by using the Luvleegift app to order a thoughtful gift and card before leaving the office in the evening, for collection from a convenient supermarket on the way home. Competitors offer a choice between next-day and 3-day delivery for their personalised products.

Reference Material

Pre-seen

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

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

Three months later, Peter Fodya, Chief Finance Officer (CFO), says to you:

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

I need you to prepare a paper that covers the following:

- First, evaluate with reasons the commercial logic of Snakwheel acquiring Luvleegift.

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

- Second, recommend with reasons how the Board should interpret the increases in the share prices of Luvleegift and Snakwheel, as described by the Non-Executive Chair."

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

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

**Board minute extract: possible acquisition of Luvleegift**

Rashida Tull, Marketing Director, reported that Snakwheel has been delivering personalised gifts on behalf of Luvleegift for 2 months. This has been a major success, with 55% of customers choosing home delivery over collection from their local retail unit. Home delivery was continuing to grow.

Luvleegift's existing retail outlets cover 60% of Westaria. The company plans to open more retail units within Reasnamart Supermarket's stores in order to cover the whole country. Luvleegift has also opened a unit within one of Snakwheel's 23 dark kitchen facilities. That has been successful, even though it operates exclusively on a home delivery basis.

The Board discussed the possibility of bidding for control of Luvleegift, which is quoted on the Westarian Stock Exchange.

Ahmad Farah, Chief Executive Officer, reminded the Board that Luvleegift had only been selling personalised gifts for 3 years. Before that it had been a leading manufacturer of high-quality pens and writing paper, which had declined in popularity because of the growth in electronic communication. Luvleegift's management team had made an excellent job of selling assets, including intangibles such as brand names, and changing the company's strategic direction. Luvleegift now focusses exclusively on personalised gifts.

Esmā Asil, Non-Executive Chair, told the Board that her contacts had warned her that there were rumours on the Westarian Stock Exchange that Snakwheel would bid for control of Luvleegift. She believed that this had caused small increases in the share prices of both companies.

Reference Material

Pre-seen

Write your reply to Peter's requests in the box below.

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

Four months have passed. You receive the following email:

**From:** Peter Fodya, Chief Finance Officer

**To:** Senior Finance Manager

**Subject:** FWD: Luvleegift

Hello

I have attached an email that I received from our Chief Executive Officer (CEO). I need your help with two matters in drafting a response.

- First, identify and evaluate the ethical and governance issues associated with any revision to our mission in response to the acquisition of Luvleegift.

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

- Secondly, evaluate the governance issues that could arise when both Luvleegift's former CEO and Marketing Director join Snakwheel's Board and recommend with reasons how those issues should be managed.

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

Peter

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

**From:** Ahmad Farah, Chief Executive Officer

**To:** Peter Fodya, Chief Finance Officer

**Subject:** Luvleegift

Hello

It has just been confirmed that we have acquired 100% of Luvleegift through the share for share exchange that we offered. The acquisition has increased our market capitalisation by 15%.

In return for supporting our bid, we have agreed that Luvleegift's CEO and Marketing Director will both be appointed as executive directors on the Snakwheel Board. Luvleegift's other directors will be made redundant.

The acquisition raises concerns about the relevance of our mission. At present, it reads:

"Snakwheel's mission is to enable consumers to buy Westaria's best fast food without leaving their homes or workplaces."

Ahmad

Reference Material

Pre-seen

Write your responses to Peter's requests in the box below.

**From:** Senior Finance Manager  
**To:** Peter Fodya, Chief Finance Officer  
**Subject:** RE: FWD: Luvleegift

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 left, Indent right, Decrease indent, Increase indent, Bulleted list, Numbered list, Decrease indent, Increase indent.



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## Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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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](#)

**Peter Fodya, Chief Finance Officer, stops by your workspace and says:**

"I have printed out a news report that has just been posted online.

Ahmad Farah, our Chief Executive Officer (CEO), has asked for a briefing and I require the following from you:

- First, recommend with reasons the matters that you would raise in an analysis of the political, legal, and social issues arising from the driving behaviour of our couriers.

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

- Second, evaluate whether it would be unethical to exclude the concerns associated with the driving behaviour of our couriers from our published statement of principal risks until we have investigated the matter and decided whether any mitigation is required."

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

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

# Westaria Daily News

## Fast food couriers are a “danger on the roads”



The Westarian Police Service's Chief of Traffic has warned fast food companies and the delivery platforms that support them that they need to act urgently in order to deal with the number of offences and road traffic accidents caused by their couriers.

Couriers are often guilty of speeding and reckless driving. They are paid a fee for each delivery that they make and customers usually give a gratuity on delivery, so they have a financial

incentive to complete as many jobs as possible in the course of a shift.

Fast food companies are also partly to blame because they give customers estimated delivery times and couriers often rush to make up for any delays in order to avoid negative customer feedback.

There are also problems with couriers driving without proper licences or insurance. Companies generally check that these are in order when couriers are first appointed, but there have been cases where couriers have subsequently been banned from driving because of motoring offences and have continued to drive illegally. There have also been cases where couriers have allowed their insurance to lapse or where they have borrowed vehicles when their own has broken down even though they have not been insured to drive them.

The Chief of Traffic warned that there had been 18,000 motoring offences by fast food couriers in the previous 6 months and that the Police Service was considering tough action against couriers and their employers.

Reference Material

Pre-seen

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

Rich text editor toolbar with icons for undo, redo, bold, italic, underline, strikethrough, subscript, superscript, link, unlink, paragraph, table, bulleted list, numbered list, indent, and outdent.

Reference Material

Pre-seen

Three months later, you receive the following email:

**From:** Peter Fodya, Chief Finance Officer  
**To:** Senior Finance Manager  
**Subject:** Driving offences

Hello

I have forwarded a scanned copy of a letter.

Our IT system tracks couriers' locations at all times. We cannot tell whether drivers are behaving recklessly in traffic in order to make deliveries more quickly.

We could check the licences and insurance held by our couriers if we had access to their files on the database maintained by the Westaria Driver and Vehicle Authority (WDVA), but that would require drivers to give us their passwords and their permission to access their WDVA files and data privacy regulations forbid us from requiring employees to do so.

I need your help with two matters:

- First, recommend with reasons whether Board members should accept personal liability for driving offences by couriers or whether the Board should attempt to influence the Westarian Government's proposed changes to the law.

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

- Second, recommend and explain two internal controls that would enable the Board to demonstrate that it had taken reasonable steps to ensure that couriers do not commit driving offences during working hours.

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

Best wishes

Peter

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

## Caister and Chan Corporate law

Ms Esma Asil  
Non-Executive Chair  
Snakwheel

Dear Ms Asil,

### Directors' personal liability

In response to your request, I have studied proposed changes to Westarian law that will make companies liable for certain categories of driving offences committed by employees.

The new law will make it a criminal offence for employers to encourage employees whose duties involve driving to exceed speed limits or to drive recklessly. It will also be an offence for employers to encourage employees to drive without an appropriate licence or insurance cover.

The question of whether individual Board members might have a personal criminal liability for any criminal act by Snakwheel is complicated. It would certainly be wise for the Board to take all reasonable steps to ensure that couriers do not commit driving offences while making deliveries.

Yours sincerely,

*Mary Chan*

Senior Partner

Reference Material

Pre-seen

Write your reply to Peter's requests in the box below.

**From:** Senior Finance Manager  
**To:** Peter Fodya, Chief Finance Officer  
**Subject:** RE: Driving offences

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

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

Three months later, Peter Fodya, Chief Finance Officer (CFO), stops by your workplace and says:

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

Please advise me on the following before I meet with Ahmad Farah, our Chief Executive Officer (CEO):

- First, recommend with reasons the manner in which the points raised by the Chief Operating Officer (COO) should be reflected under the human capital and the social & relationship capital sections of our integrated report (<IR>).

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

- Second, recommend with reasons the actions the Board should take given the possibility that Snakwheel's dividend might be less than expected."

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

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



**Board minute extract: online training for couriers**

Eleni Sakellariou, Chief Operating Officer (COO), reported that the new systems to discourage couriers from committing driving offences had been highly effective. Unfortunately, that had also led to 10% of Snakwheel's couriers resigning because their earnings had decreased or being dismissed because they were either not adequately licenced or insured.

The Operations Department has been actively recruiting couriers, but it has been difficult to fill vacancies quickly. It has been necessary to reduce service levels in some areas, which has led to unhappy customers and problems with restaurants.

Operations has invested heavily in an online course that all couriers are required to complete. The course ensures that all couriers are fully aware of their legal duties and responsibilities to Snakwheel. The course also provides useful advice on reducing the costs of owning, running and insuring vehicles. Feedback from couriers about the course has been positive.

For some time, there have been rumours in the financial press that this year's dividend will be significantly higher than last year's. Peter Fodya, Chief Finance Officer (CFO) warned the Board that the recent loss of couriers and the associated reduction in service levels could mean that Snakwheel will be unable to maintain its expected growth in dividend payments.

Reference Material

Pre-seen

Write your responses to Peter's requests in the box below.

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## Strategic Case Study Exam

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

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

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

**Peter Fodya, Chief Finance Officer (CFO), says to you:**

"I have brought you an extract from a Board minute. This matter is highly confidential. Nobody knows about this approach, including the other restaurant chains that we work with in addition to Taystburger. We need to be ready to deal with them when Taystburger announces its intentions.

I need your advice on the following matters so that I can prepare for the next Board meeting:

- First, evaluate the stakeholder interests of the restaurant chains, other than Taystburger, that we work with and recommend with reasons how the Board should manage those interests.

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

- Second, evaluate the ethical implications of Snakwheel's directors refusing to support Taystburger's bid in order to protect their careers."

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

**The Board minute extract referred to by Peter can be viewed by clicking on the Reference Material button above.**

**Board minute extract: meeting with Taystburger**

Esma Asil, Non-Executive Chair, reported that she had met with her counterpart at Taystburger. She was told that the restaurant chain's directors intend to bid for control of Snakwheel because Taystburger intends to open many more restaurants and it wishes to acquire Snakwheel in order to ensure that it has sufficient capacity for home deliveries.

Ms Asil reminded the Board that Snakwheel is quoted on the Westarion Stock Exchange and so Taystburger is free to buy shares on the open market, regardless of whether their bid is supported by Snakwheel's Board. Nevertheless, the bid is more likely to succeed if the Snakwheel Board recommends that shareholders accept the offer.

No decision was reached as to whether the Board will support this bid. Ms Asil was asked to seek additional information on Taystburger's intentions with respect to the operation of Snakwheel in the event that its bid succeeds and also with respect to the future employment prospects of Snakwheel's directors.

Reference Material

Pre-seen

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

Rich text editor toolbar with icons for undo, redo, bold, italic, underline, strikethrough, subscript, superscript, link, unlink, paragraph, table, bulleted list, numbered list, indent, and outdent.



Reference Material

Pre-seen

A month later, you receive the following email:

**From:** Peter Fodya, Chief Finance Officer  
**To:** Senior Finance Manager  
**Subject:** Bid announced

Hello

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

I need your help with two matters before I brief Ahmad Farah, our Chief Executive Officer (CEO):

- First, explain how we should interpret the movements in the share prices of both Snakwheel and Taystburger. Please focus on the specifics rather than a detailed explanation of the efficient market hypothesis (EMH).

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

- Second, identify and evaluate the risks to Taystburger associated with the planned loan from Southland Commercial Bank.

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

Best wishes

Peter

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

# Westaria Telegraph

## Taystburger bids for Snakwheel



Taystburger, the chain of fast food burger restaurants, has announced that it plans to bid for control of Snakwheel, the home delivery platform that serves Taystburger and several other companies. The stock market reacted quickly to this announcement, with Taystburger's share price decreasing by 11% and Snakwheel's increasing by 9%. Those movements reversed slightly, with Taystburger's shares down by 8% on the day and Snakwheel's up by 7%.

Taystburger's Board announced that it planned an all cash offer for Snakwheel's shares. Taystburger has significant cash reserves, which will be supplemented with a floating rate loan that will be equivalent to W\$2,000 million, but will be borrowed from a commercial bank in Southland and denominated in S\$. That loan will increase Taystburger's gearing from 30% to 37%.

Snakwheel's Board declined to comment on the bid. A press release said that the Board would consider the interests of Snakwheel's shareholders before commenting.

Reference Material

Pre-seen

Write your reply to Peter's requests in the box below.

**From:** Senior Finance Manager  
**To:** Peter Fodya, Chief Finance Officer  
**Subject: RE:** Bid announced

Rich text editor toolbar with icons for: New document, Cut, Copy, Paste, Undo, Redo, Table, Bold (B), Italic (I), Underline (U), Strikethrough (ABC), Subscript (x<sub>2</sub>), Superscript (x<sup>2</sup>), Link (Ix), Paragraph dropdown, Table dropdown, Bulleted list, Numbered list, Indent left, Indent right, Decrease indent, Increase indent.

Large empty text area for writing the reply.

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

Three months later, Peter Fodya, Chief Finance Officer (CFO), stops by your workspace and says:

"I have brought you an extract from this morning's Board meeting. We are meeting again later today to discuss issues relating to the acquisition.

Please advise me on the following before the next meeting:

- First, evaluate the respective roles and responsibilities of Snakwheel's executive and non-executive directors at this stage of Taystburger's acquisition of control.

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

- Second, explain why Taystburger might be keen to evaluate Snakwheel's cyber security in relation to availability and confidentiality and recommend how Snakwheel's Board might best assist Taystburger in achieving those objectives."

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

The Board minute extract referred to by Peter can be viewed by clicking on the Reference Material button above.

**Board minute extract: meeting with Taystburger**

Esma Asil, Non-Executive Chair, reported that she had just been informed that Taystburger had acquired 85% of Snakwheel's equity and so had acquired control. She intended to contact her counterpart at Taystburger in order to offer the Board's support.

Ms Asil said that she anticipated that Snakwheel's non-executive directors would be made redundant and that the futures of the executive directors within the Taystburger group would be considered on a case-by-case basis.

Joel Williams, the Chief Information Officer (CIO) told the Board that Taystburger's CIO had scheduled a meeting and had also requested contact details for the senior managers in charge of Snakwheel's programming and IT operations.

Reference Material

Pre-seen

Write your responses to Peter'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.



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 2022

### 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 – intangible value drivers**

###### Relationships with suppliers (fast food chains)

Arguably, Snakwheel's most important intangible value driver is its relationship with the fast food chains that presently provide all of the company's revenue and will continue to provide a significant proportion if this proposal is implemented. Snakwheel should take care because the chains may be concerned that they will lose business if customers decide to buy some of their home deliveries from local restaurants instead of their favourite fast food chain. In the long term, this could lead to chains considering alternative arrangements, such as moving to a competing home delivery service or making their deliveries. It may be possible to persuade the chains that this proposal will benefit them. The restaurant chains may benefit from the fact that the launch of the local restaurant service will result in fresh publicity for Snakwheel and home delivery. Encouraging customers to revisit their Snakwheel apps to browse for new restaurants could lead to additional sales for fast food chains. It would also be difficult for a fast food chain to relocate to a competing home delivery service because of the need to promote the change in order to inform and retain customers.

###### Brand

This proposal could lead to an overall boost for the Snakwheel brand, which could prove beneficial in the long term if it extends the demand for home delivery of meals. Snakwheel's app might open up niche markets such as families. Adults will be able to order more sophisticated meals from local restaurants, while ordering their children's favourites from fast food restaurants. There could also be a slight shift in perception of the brand if the company is associated with good quality local restaurants, alongside fast food chains. The Snakwheel brand could lose much of the adverse connotations associated with fast food, such as poor quality and unhealthy eating. A wider range of customers may be willing to be associated with the brand by having meals delivered to their homes.



## Reputation

There could be some damage to Snakwheel's reputation if customers are disappointed by the home delivery experience associated with these restaurants. Customers are used to receiving deliveries of fast food that has been designed to be prepared and transported before consumption. More elaborate meals may not live up to customer expectations if they have cooled slightly or have not been plated and presented to restaurant standard. Restaurants will have to develop new menus for home delivery, but they may have no experience in that area and produce dishes that could easily be created at home, such as soups that are no better than tinned soup from a supermarket. Disappointed customers may post negative reviews online, which could affect the conventional sit-in meals sold by some restaurants. The location of some local restaurants may create confusing catchment areas because their location may restrict the ability to cover the entire town and so customers who wish to order may find that they are excluded, leading to further negative reviews.

## Data on customers

This proposal could enhance the value of Snakwheel's customer base. The company already has a database of customers who enjoy fast food from leading chains, but this proposal could attract new customers, which could create fresh opportunities. The proposal could push Snakwheel slightly upmarket, and the new customers could have higher average disposable incomes than the existing ones. This could create opportunities to add value by working with restaurants and even third parties. Snakwheel could, for example, obtain permission to contact customers with special offers and then use that permission to send targeted promotions. Snakwheel could also assist potential businesses to identify suitable locations for shops and restaurants because the company will be able to identify districts that have a strong customer presence. The addition of local restaurants could help Snakwheel to attract customers who have previously subscribed to competing home delivery providers. There is generally a high level of customer loyalty in this business, and so any such advantage could be highly beneficial.

*Other intangible value drivers would have been accepted.*

## **Requirement 2 – interest rates**

The revenue from this venture will be affected by the amount that consumers spend on food for home delivery. Rising interest rates are generally harmful to any industry that makes consumer sales because they reduce disposable income. Customers will have to pay more for any floating rate personal borrowings, such as mortgages or credit card interest, which will leave them with less to spend on discretionary expenditure. Fast food will generally cost more than home-cooked food, and so customers may be less inclined to use their Snakwheel app if interest rates rise. Many of the local restaurants that will sign up with Snakwheel will be relatively upmarket and so more expensive than existing chain restaurants, which could discourage customers from experimenting with the service.

Snakwheel may struggle to recruit local restaurants if those businesses are nervous about investing in additional capacity during a difficult economic period. Restaurants may need to invest in additional kitchen space and equipment or commit to hiring additional staff to ensure that they can create meals for home delivery, while responding to demand from sit-in customers. It is likely to be both difficult and expensive to back out of those investments if the venture fails, so the economic climate may be a worry. The increased interest rates will also have an adverse impact on the cost of capital for this investment, and so it will be less attractive to restaurants. It will not be cost-effective for Snakwheel to launch the home delivery service because it will need to spend on promotion and advertising, and the venture will be a failure unless there are sufficient local restaurants within most of the catchment areas.

This view may be a little simplistic because demand may not be affected by increased mortgage and personal finance costs. Consumers may continue to “treat” themselves with meals from restaurants, even if they have less disposable income. There is also a possibility that sales of home delivery meals will displace sales of more expensive sit-in meals. This could be an opportunity for local restaurants to protect their revenues. Snakwheel will enjoy the upside potential of this risk, while the downside will be borne by the restaurants, and so it has relatively little to lose if restaurants proceed and do not benefit. There is also the possibility that the increase in interest rates will be relatively short-lived and that restaurants will look forward to more prosperous times.

## SECTION 2

### Requirement 1 – foreign currency loan

The most obvious advantage is that Snakwheel will secure the E\$ equivalent of the W\$906 million and so will be guaranteed the funds to complete this investment. The initial payment is only  $W\$(57+26/2)/906 = 8\%$  of the total. The remainder will be divided into large amounts that are payable at interim stages throughout the development of the software, with the final payment in 24 months. Agreeing to an E\$ loan with an Eastlandian bank will mean that these payments will be hedged against any currency movements between the W\$ and the E\$. If the bank insists on lending the whole of the loan amount in one lump sum, then the funds will be denominated in E\$ and can be deposited in an E\$ bank account, hopefully earning some interest, until needed.

The seller of the system will be reassured by the fact that the funds have been promised by what will be a local bank to them. The loan agreement will be easy to understand because it is likely to be drafted in accordance with Eastlandian law, and so it is clear that the funds are available. The seller will have a clearer understanding of the bank's viability, and so there will be fewer concerns that the funding for this project may be lost. The seller is also more likely to have the ability to pursue action in an Eastlandian court to secure payment in the event of any breach of contract by Snakwheel if the cash is located in an Eastlandian bank account. If the seller is secure and confident, then Snakwheel is more likely to get good service in terms of the seller being less inclined to be defensive and pressing for additional safeguards.

Snakwheel will be exposed to movements on the E\$ against the W\$ for the duration of the loan. If the interest rate on the loan is fixed, then Snakwheel could be faced with a significant movement in the cost of servicing the loan. The danger could be mitigated to some extent by the negotiation of a floating rate loan or the use of a swap to expose Snakwheel to variable rates. In that case, the International Fisher Effect would generally mean that any increase in the E\$ would be offset by a decrease in the country's interest rates. This will tend to even out the finance cost, although the relationship will not necessarily be instant or 100% effective.

The shareholders may be concerned because Snakwheel will be subject to translation risk. Regardless of the manner in which the loan is structured, the amount payable will have to be restated in terms of the closing interest rate at the end of the financial year. Arguably, the accounting adjustments have no economic impact and so they should be ignored. The problem is that the shareholders may not be satisfied with such an argument and this could lead to dysfunctional behaviour by the Board, such as unnecessary and costly hedging of the translation risk.

### Requirement 2 – risks

One major source of cyber risk is that Snakwheel has no direct experience with an upgrade of this type and magnitude. At present, Snakwheel's systems must interact with those of five fast food chains.

The upgrade will require the company's systems to interact with those of many individual businesses, each of which will have its unique characteristics. Neither Snakwheel's management team nor the consultants from the IT firm will necessarily have the ability to oversee and manage an upgrade to a complicated system that requires this ability to integrate, so programming and other system errors could easily be overlooked. Any problems with the resulting system could be catastrophic for Snakwheel because it is totally reliant on its IT system to conduct business. The Eastlandian IT firm may not have experience in dealing with the challenges and constraints that arise in developing and maintaining Snakwheel's systems. The fact that it submitted such an attractive bid could imply that its consultants did not have an adequate understanding of the challenges associated with upgrading Snakwheel's cyber systems.

The fact that the IT firm is based in Eastland could mean that it lacks familiarity with the relevant laws and practices relating to cyber systems that apply in Westaria. Snakwheel is entrusted with customers' personal data, and some laws will govern matters such as privacy and security. The IT firm could incorporate logical safeguards, but that fail to live up to Snakwheel's needs and its customers' expectations. Customers may be nervous and might cancel their accounts if Snakwheel's system is found to breach Westarian standards, even if there are no specific insecurities because of that.

The fact that the IT firm is located overseas will make communication more difficult to arrange and possibly less secure. The IT firm's consultants may continue to work largely from their home base, visiting Snakwheel only when necessary. This may make it more difficult to discuss and resolve any issues while the development work progresses. It may be necessary to establish a link that will enable the IT firm to access Snakwheel's systems and data files remotely, which could compromise cyber security if the link is intercepted or abused.

The IT firm's plan only allows 10 months for the development and testing of software, which may be insufficient to allow for the programs to be written from scratch and tested in detail. If the software is to be based on an adaptation of existing systems, then it would be preferable to use the firm that was responsible for its development rather than an outsider. The firm's plan to develop and test the software before buying the hardware suggests that it will not be testing the system to ensure that the hardware and software are compatible. The installation and setup are major elements of the plan, given that E\$137m is to be spent on it (although it also includes training). Overall, the timings appear rather tight, and so there could be a concern that the IT firm is over-promising in order to get the contract.

## SECTION 3

### **Requirement 1 – poor governance**

Snakwheel presently services five restaurant chains, each of which will have its system. When Snakwheel's system was developed it was only necessary to ensure integration with those five systems. The chains will have their own IT specialists because they depend heavily on their systems in order to manage the operations of their different branches. Those specialists will realise that they need to keep systems updated and inform Snakwheel of any changes. The extension of the system to incorporate a further 800 local restaurants means that integration and IT issues are potentially far more complicated because each restaurant could have its unique system. Snakwheel should also have considered the possibility that local restaurants will not have their own IT staff, and so they will not be monitoring matters such as the speed of network connections or ensuring that software is kept up to date. Snakwheel should have considered these risks and carried out pilot testing by adding a few local restaurants initially and testing the operation of the IT systems for the sale of meals for home delivery. Any failure to identify and review those risks would imply a serious failure of governance of the IT elements of this new venture.

The fact that Snakwheel has a Chief Information Officer (CIO) on its Board suggests that it takes oversight of IT operations very seriously. The implementation problem arising, in this case, should only be regarded as implying poor governance if the CIO could have identified this problem in advance and done something to address it. It would not be cost-effective for independent local restaurants to have bespoke IT systems written specifically for them. They are far more likely to purchase "off the shelf" packages that are sold to restaurants. It would have been realistic for the CIO to have assumed that it would have been relatively easy to have tested the ability of Snakwheel's system to work in conjunction with those standard packages. If Snakwheel had informed the restaurants of their obligations to provide consistent IT systems, then it could be argued that the Board had done everything that could have been expected of it. The real test of governance will be the speed with which the system problems are properly diagnosed and resolved. It is a Board matter now to ensure that resources are applied to address this problem.

### **Requirement 2 – control environment**

In this context, a sound control environment would enable the Snakwheel Board to exercise quality control over the home delivery service provided by the local restaurants, both in terms of the meals themselves and their delivery. The need for controls and a controlled environment arises in this case because there are 800 restaurants spread across the country, and so they are not subject to direct supervision. The control environment could be enhanced by clarifying the relationship between Snakwheel and the restaurants. It should be made clear to them that the Snakwheel operates the home delivery service and promotes it as a service under its name. If necessary, the restaurants should be reminded of the commitments that were made when they signed their contracts to be part of this home delivery service.

Many of the local restaurants lack experience in the creation of menus, and so they may be incapable of meeting that aspect of their contract. If the restaurants do not know how to serve the home delivery market, then there is little point to Snakwheel creating controls, such as specifying the criteria that must be satisfied in order to achieve customer satisfaction. Snakwheel could address that concern by offering more specific advice about cooking and packing food for home delivery so that local restaurants had a better understanding of what was expected of them. Snakwheel could commission advice about menu creation from restaurants that have had positive feedback for circulation to all restaurants. Restaurant owners should also be required to sample their meals, after they have been packaged and kept warm in a hotbox for the average duration of a courier delivery.

Local restaurants are likely to be independent businesses whose owners do not necessarily accept Snakwheel's authority. They have been successful businesses in their own right, which has enabled them to remain in business as traditional restaurants, and so they may resent anything that might be interpreted as criticism from Snakwheel. One response would be for Snakwheel to exercise its authority by seeking feedback from restaurant owners or managers about recent feedback scores. This will make those in charge of local restaurants aware that Snakwheel pays attention to those scores and that they may need to work towards service improvements. Snakwheel could declare restaurants that have consistently poor scores to be "at risk" and in extreme cases, they might be excluded from the service, especially if they appear to be making little effort to improve.

A controlled environment will always be difficult to establish if the people whose actions are subject to control feel that the Board is remote and is not interested. This is a very real risk given that there are 800 local restaurants and, hopefully, others who will be signed up. It would be potentially helpful for Snakwheel to employ a management team at head office that will be expected to stay in contact with local restaurants by telephone and email. This team could be asked to review menus and to discuss revenue earned from home deliveries. Regular contact with a Snakwheel manager who provided an incentive to think about menu ideas and proposals to improve feedback would encourage restaurant managers to pay more attention to home deliveries. These conversations would also better equip Snakwheel to offer advice to restaurants that are experiencing difficulties.

## STRATEGIC CASE STUDY

MAY & AUGUST 2022

### EXAM ANSWERS

#### Variant 2

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

#### SECTION 1

##### **Requirement 1 – ethics of payment to couriers**

It could be argued that Snakwheel's behaviour is acceptable when judged against the principle of professional behaviour, which requires compliance with all relevant laws and regulations. The fact that there is a specific legal exemption from paying the minimum wage to staff in the restaurant industry means that Snakwheel is fully compliant with the law. Legislators should take ethical and social issues into account when they set the law, and so Snakwheel should be permitted to accept that any wage payment that complies with the law has been deemed to be socially and morally correct. Snakwheel offers prospective couriers the opportunity to work on this basis and that is, presumably, clear in any terms and conditions that are offered. The fact that couriers are prepared to sign contracts with Snakwheel and to remain in employment while working for the agreed amount suggests that they are happy to be paid on this basis.

It could be argued that Snakwheel is in breach of the concept of integrity, which requires it to be straightforward and honest. Customers give couriers gratuities in the belief that they are a gift as a sign of gratitude for the service that has been provided. Paying less than the minimum wage because couriers are expected to receive gratuities effectively means that gratuities are supplementing Snakwheel's operating costs. If gratuities were not given, then couriers would be underpaid. Snakwheel is effectively misleading customers by choosing not to disclose the fact that gratuities are an essential part of ensuring that couriers can cover their living costs, rather than small gifts.

Snakwheel could also be deemed to be in breach of the principle of objectivity, which suggests that the company should not bias any judgements. Couriers are expected to earn a variable amount from fees, with estimates ranging from W\$6 to W\$9. Snakwheel cannot be certain how much a courier will earn from delivery fees in any given area or at any given time. Couriers who earn at the lower end of the scale will be making fewer deliveries, and so they will have fewer opportunities to earn money

from gratuities. Furthermore, Snakwheel cannot be certain that couriers will earn much, if anything, from gratuities because those are at the absolute discretion of the customer and could be affected by issues such as delays at the restaurant meaning that the delivery is late.

## **Requirement 2 – political, legal and social analysis**

News about the behaviour of the restaurant industry could persuade the government to do something about this. It could lead to the law being changed so that the exemption for restaurant staff was withdrawn. The most immediate question is whether this news story will create sufficient public reaction to prompt government action. The government is already aware of the restaurant staff exemption because it is part of the law, and so this news report will not provide the government with any additional information. The big question is whether the public will respond by pressing for fairer treatment of restaurant workers, including couriers.

Snakwheel could address this challenge by seeking the advice of newspaper editors as to whether they intend to follow up on this story. The fact that Snakwheel is a major advertiser will enable it to request such information. If the press does not intend to treat this as a major issue, then Snakwheel can be reasonably confident that it will not have to deal with any political pressures to change courier compensation. Snakwheel should also consult with other major restaurant businesses in order to determine how they intend to proceed. If they intend to pay the minimum wage even though they are not required to by law, then Snakwheel may feel obliged to follow. Snakwheel should encourage the restaurant industry to meet with relevant members of the government to discuss the question of staff pay in this major industry.

Society could respond to concerns about Snakwheel's treatment of its couriers by ordering less, or even boycotting the company altogether. Customers could be disturbed by the fact that home delivery platforms underpay their couriers and may wish to express that by withdrawing their custom. Customers could also feel that they are guilty of exploitation themselves because the cost of their meals is effectively being subsidised through the workers accepting poor pay and working conditions.

The most effective response to this challenge would be to seek feedback from customers, perhaps conducting surveys about their attitude towards the manner in which couriers are paid. It might be worth acting in conjunction with competing home delivery platforms because the newspaper report does not mention Snakwheel specifically, and so there is no reason to risk associating the company with this practice. Snakwheel could, however, publicise the ways in which its couriers benefit from working for the company. The fact is that Snakwheel's couriers may not be particularly well qualified and may require greater flexibility than that offered by a traditional job. The payment structure enables people to earn a living when they might otherwise struggle to do so.

The legal aspect will be difficult to manage because any change in the law will be at the government's discretion, and Snakwheel will have to comply if it wishes to stay in business. Any attempt by Snakwheel to influence the development of any new law will appear to be motivated by self interest. The possibility that this exception will be withdrawn might be dealt with in the short to medium term, but it could be revisited at any time in the future.



Snakwheel should seek the support of the restaurant industry to lobby against changes that will significantly increase operating costs. It may be possible to argue that the industry will be forced to close restaurants and cut jobs. Lobbyists could point out that any change in the law will cost consumers more because the cost of eating in restaurants will increase in line with wage rises, and customers will probably continue to pay gratuities. Any lobbying will have to be effective so that future governments are reluctant to propose changing the law in the future.

## SECTION 2

### **Requirement 1 – impact on share price**

In an efficient market, all information will be incorporated into the share price in an unbiased manner. If anticipated net cash flows decrease because of an increase in operating costs, including wages, then the market capitalisation will decrease by the market's estimate of the present value of those additional costs. Estimating this decrease will be complicated by the fact that the Board does not necessarily know what value the capital market will attach to that cost increase. The market may take a different view from the Board about the cost of this new policy, which will be due in part to the fact that there may not be "official" figures relating to the costs that will be incurred. Snakwheel's Board may be reluctant to issue too much additional information in case it offers useful commercial intelligence to rival delivery platforms. Even if the Board does offer an estimate, the market may not necessarily accept that the figure has been determined accurately and could act on the basis that an optimistic estimate has been issued in order to protect the share price.

Efficient markets take all relevant information into account, including possibilities that changes might occur in the future. The markets are aware of the exemption from minimum wage legislation for restaurants and the fact that self-employed couriers are not subject to minimum wage legislation in any case. The current market price will already take into account the possibility that costs will increase in the future due to potential changes to the law or quoted restaurant companies increasing wages because of social pressure. News that this cost increase has arisen will still have an adverse impact, but one that will have been offset by the market's previous awareness of that possibility. Unfortunately, the impacts of different factors and possibilities that have contributed to the share price cannot be determined in any objective manner, and so the offset cannot be predicted.

The market's reaction will take account of all of the impacts of any future change, which may prove complicated. Snakwheel's business model involves managing costs by keeping wages and delivery fees low, and this may discourage some customers from suing the company because they feel guilty. If Snakwheel rolls out a more generous reward scheme for its couriers, then sales volume could increase because the company is viewed as taking better care of its staff. There could also be a competitive advantage over other platforms if Snakwheel increases payments first and, given that customers generally stay loyal to any given platform, this could add to long term value. It would be difficult for the Board to evaluate the possibility that the market's thought process will yield a counter-intuitive increase in share prices. It would, however, be worth meeting with some leading market analysts on a strictly confidential basis in order to explore their opinions of such a move.

### **Requirement 2 – compliance with core values**

Arguably, core values are important because they provide insight into an entity's corporate culture. This culture will be of interest to shareholders because it will offer an insight into relationships with stakeholders, in this case, the people who provide the delivery service that is the basis of Snakwheel's business. If a company does not appear to be adhering to its core values, then that could imply that it does not care about those stakeholders. If Snakwheel is failing in any commitments that it has

offered to its courier,s then that may be interpreted as opening the possibility of friction, possible loss of staff and adverse publicity.

Core values can also imply shared values that exist across the entity and so enable the company and its stakeholders to communicate effectively and cooperate. Snakwheel's couriers are the only people with whom customers have any direct contact. All other interactions with the company will be through the app. If Snakwheel does not live up to the commitments being made in its statement of core values, then couriers might not acceptably present themselves when delivering meals, which could lead to dissatisfied customers. It might also make it easier for competitors to recruit Snakwheel's experienced couriers by simply offering a little more respect and honesty.

The core values are effectively a statement by the Board concerning important matters and that there are governance issues associated with any failure to comply. The markets would have a right to question the Board's honesty and integrity if it did not live up to its core values. Those core values were created by the Board, and they could easily be changed if they are no longer relevant or appropriate. The Board could be jeopardising long-term strategic relationships simply by appearing to disregard the statement of core values.

It could, however, be argued that the core values are open to interpretation and should not be taken out of context. It is obvious to anyone who has taken any real interest in the company that Snakwheel's use of independent contractors as couriers is about the company's convenience and flexibility in operations. It remains the case that the couriers are being supported in establishing themselves as self-employed contractors and that they will benefit in many ways if they choose to apply themselves. It would certainly be possible to question whether couriers are flourishing as individuals given that they might earn less per hour than the minimum wage, but there could be counterarguments to that assertion. From a cynical point of view, many readers of the core values will view that as an "ideal" put forward by the Board, and they will not take them too seriously.

## SECTION 3

### **Requirement 1 – non-executive directors**

The Board has a responsibility for the overall strategic management of the company, and all Board members should be encouraged to speak on matters that concern them. The Board is free to debate any proposal that is put forward by any member and to reject any that are deemed inappropriate. Ms Tsai's comments should have been noted and treated with the same respect afforded to any Board member. She will, after all, be held accountable for any decisions made by the Board with respect to staff pay. The COO's rebuke should have been dealt with by the Chair because Board meetings will lose much of their value if Board members cannot speak freely when they wish to do so.

Non-executives have a fairly well-defined role in governance to oversee the behaviour of the Board. In this case, a majority of the Board argued that the present reward system motivated couriers to work harder on Snakwheel and so should maximise profit. Ms Tsai's comments focussed on the ethical implications of doing so, in a scenario in which it was unclear whether all couriers were earning an adequate income. Arguably, the non-executives have a duty to identify unethical behaviour by the Board and to intervene so that any problems are addressed and dealt with. The fact that Ms Tsai spoke up after a majority had already supported a particular argument, which indicates that her comments might lead to a healthy debate about alternatives, to replace the risks arising from "group" thinking.

Care should be taken in encouraging non-executives to become too involved in the development of strategy. While it is acceptable for a non-executive director to speak on any matter in any way that seems appropriate, it would be desirable for the non-executives to retain some distance from any final decisions that are reached. If the Board gives her any significant responsibility for the implementation of her proposed policy, then she may feel that her independence as a non-executive has been compromised. She could, for example, be reluctant to see a return to the previous system if she is recognised as one of the directors who argued for the change. It may be more appropriate for non-executives to raise concerns and then permit the merits of their ideas to be discussed by the Board. They should perhaps take no further interest provided their proposal has been adequately discussed.

There could be questions about the expertise of the non-executive directors who have been brought onto the Board to broaden its perspective. Ms Tsai's career has been impressive, but she has worked exclusively for a railway company. This is impressive and enables her to offer a fresh perspective, but it also suggests that her opinion may lack some credibility if she disagrees with the Board. Non-executives can add a great deal, even if they have little direct experience, and so care should be taken before disregarding their arguments. For example, Ms Tsai's experience of specialising in HR and also of working with the government could give her insights into prospective changes in the law.

## **Requirement 2 – social and relationship capital**

Social and relationship capital essentially deals with the relationships within and between stakeholders and other interested parties. Companies should reflect shared values, commitments and knowledge in this section of their report.

Ms Tsai's proposal could be reported in terms of its impact on shared values between Snakwheel and its couriers, Snakwheel and its customers and even between customers and the couriers who serve them. At present, all contact between Snakwheel and couriers is essentially electronic, with couriers being managed through an app and not having access to Snakwheel's premises. It may prove difficult for couriers to feel appreciated under those circumstances, but the proposed idea will ensure that all couriers receive a fair share of gratuities, even if they are based in areas where gratuities are poor or there are relatively few orders. Some couriers may object to that change, but all should be able to see that it is motivated by a desire to ensure that all couriers receive an acceptable income from their labour. Customers will also be pleased that there is greater transparency over the distribution of gratuities and the use of gratuities to supplement wages and fees paid by Snakwheel.

The change will also enable Snakwheel to report that it is fulfilling the commitment that it makes when it signs up couriers, all of whom believe that they will receive a reasonable income. Employers have a responsibility to ensure that their staff are adequately rewarded for their time and effort, and all relevant employment law is being complied with in spirit as well as in the letter. It is not acceptable to argue that Snakwheel can sometimes underpay staff because there is an exemption in the law or because the average rewards are acceptable. Snakwheel should create a reward system that ensures that all employees are paid an adequate amount, even if that means spending more in order to top up payments to couriers who are losing because of this change.

Knowledge is also an issue. At present, Snakwheel collects limited and unreliable data about the amount that couriers earn and calculates averages that may be unrepresentative of the experience of many couriers. A courier who is pressured into working at a time that is known to be slow in order to maintain continuity of service may be unable to earn that average remuneration. Ms Yu's mechanism should at least enable the company to see that there is a problem because it gives Snakwheel an accurate figure for gratuities and enables payroll to determine whether any staff are receiving an hourly rate that would be below the statutory minimum. This knowledge also enables Snakwheel to provide credible and accurate reports on the amounts being paid to stakeholders in the <IR>.



## STRATEGIC CASE STUDY

MAY & AUGUST 2022

### EXAM ANSWERS

#### Variant 3

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#### SECTION 1

##### **Requirement 1 – scenario planning**

##### **Data files are encrypted**

The immediate impact would be that all customer data will be inaccessible, and Snakwheel will be unable to contact its couriers or interact with restaurants. This could cause senior management to panic and simply cease trading, which could lead to the end of the company.

If the directors announce a temporary shutdown, with no explanation given, then the creators of the malware may make further contact and agree to supply the decryption key in return for the ransom. In that case, it would probably be worth making that payment in order to restore operations and keep the company in business.

In the medium term, it may be possible for Snakwheel to admit the problem and establish a basic but workable system fairly quickly. The restaurant chains have details of the software used to communicate orders and organise pickups, so it may be possible to seek their cooperation and get that aspect of the system running very quickly. Customers' files will have been lost, but Snakwheel's sales depend on customers making contact. A basic ordering system could be put in place, and customers could be asked to pay for each order by card, so the loss of their files will not be a major hindrance. Couriers could be asked to download a fresh app and continue to work as before. The biggest concern will be calculating the correct amounts to pay for the period immediately before the malware attack.

##### **Customer data is abused**

In the short term, the abuse of data, such as customer credit card numbers, will cause all customers a great deal of uncertainty about whether they are at risk. With the files encrypted, it will be impossible for Snakwheel to make direct contact with individual customers, which will make the uncertainty even worse.

Customers may decide to switch allegiance to a different fast food platform, such as Munchbike or Vanbite. This is especially bad news in this industry because customers tend not to switch from one platform to another under normal circumstances, and so any lost customers may be unlikely ever to return to Snakwheel.

The lack of access to the data files will make it difficult for Snakwheel to assist or support its customers in any negotiations with the credit card companies. This may further discourage customers for supporting any relaunched service offered by Snakwheel and could also discourage credit card companies from agreeing to work with that relaunched business.

Snakwheel may be subject to legal penalties for failing to maintain the security of individuals' private and personal data. Commercial organisations are generally subject to strict regulations about the manner in which they store and secure personal data, and this breach could leave it open to prosecution.

### **Ransom paid**

Presumably, the Board will not publicise the payment of W\$50m at the time of payment. There would be no reason for them to do so. The payment will have to be reflected in the statement of profit or loss, which could lead to questions from the shareholders because it would increase operating costs by  $50/822 = 6\%$ . The shareholders would be unlikely to be satisfied with the reasons for this payment because, in the absence of any catastrophic events, it will appear that the board has been tricked into paying the ransom.

The decision to pay is likely to encourage further threats and demands for even larger payments. The perpetrators who threatened the malware attack now know that Snakwheel's Board was willing to pay in response to a threatened attack. Once the initial payment appears in the financial statements, then other potential attackers will also be motivated. Snakwheel is going to have to spend a disproportionate amount on IT security and sweeps of the system to ensure that there are no vulnerabilities.

### **Requirement 2 – Board responsibility**

The Board must accept a collective responsibility for all aspects of the management of the company. It is acceptable to delegate some of the tasks associated with a particular issue to a designated director, but any recommendations that come from the director must then be considered by the Board, and the Board must accept collective responsibility. This threat is a serious strategic matter that could threaten the viability of the company if the wrong decisions are made. None of the directors can argue that they should not be involved in making decisions or that they should not be accountable for the outcome. Otherwise there could be serious agency problems because Board members will have valid concerns about the impact on their careers if they are associated with a decision that turns out to have bad consequences for the company.

It would be legitimate for the Board to delegate specific tasks and decisions to Joel Williams, the CIO, because he should have the necessary skills and experience to lead the Board on specific technical matters.

In this case, he was Head of IT Security at Snakwheel from 2017 until 2021 and so may be particularly well qualified to offer strategic leadership. It is, however, unrealistic to believe that the CIO will be able to deal with this problem single-handedly. He will have to delegate much of the detailed work to managers who are more current in the system as it stands. The Board can rely on advice from IT experts within the company and can focus on the strategic decisions that have to be made based on that technical advice.

This decision is far too important to leave it to an individual director to decide. At best, this threat could lead to an unnecessary outlay of W\$50m and, at worst, it could lead to the collapse of the business. Leaving that decision to the CIO would put him under extreme stress and could lead to a reaction rather than a considered response. The Board needs to debate the merits of the different courses of action that are open and must ensure that the final decision is acceptable to the entire Board, even if a consensus is not reached.



## SECTION 2

### Requirement 1 – share price

This could be an example of a strong form of market efficiency, which means that all information is incorporated into the share price, regardless of whether it is publicly available. One way in which a steady and persistent decrease in the share price could occur would be if someone was selling shares on the open market, despite the declining price. This could be explained by someone in possession of inside information, who knows that the price will soon fall much further, who wishes to profit from short selling. This involves selling shares that have been borrowed from a third party, hoping that the price fall occurs in time, and then buying the shares required to close out the position if and when the fall occurs. If the price fall is as large as expected, then it will be possible to buy shares to replace those that were borrowed and still be left with a sizeable surplus from their sale.

The persistent price fall could be consistent with a hacker who plans to attack Snakwheel, selling shares in advance of that attack. The adverse publicity caused by a successful attack would make the share price plummet, and so it would be possible to buy shares cheaply on the open market. The hacker could be planning to use the short sale as an additional way to benefit from the malware attack, perhaps in case we do not pay the ransom. Selling Snakwheel short and triggering the malware will benefit the hackers over and above any ransom that the company pays, but only if the attack occurs before the short sales have to be closed out. If it is assumed that the decreasing share price is linked to the threatened attack, then the assumption is consistent with the threat being real.

There is no guarantee that any short selling is linked to this threat, there could be other inside information that is triggering short sales. The same behaviour could be caused by someone who knew about some other problems that were about to emerge. For example, an employee of a competitor could know that the competitor has plans to launch an exciting new service on a specific date, but that information is being kept confidential until the launch date.

Insider trading is a serious crime, and it might be more difficult to profit from such a blatant short sale as this without getting caught. The authorities will be suspicious if Snakwheel suffers a major cyber-attack and short-selling positions are closed out immediately afterwards.

The declining share price may not be due to short selling and may not be a sign of strong-form efficiency. It may be attributable to a shareholder who has a large investment and wishes to liquidate that position. Announcing the sale of a large block of shares will always depress the share price, and the shareholder will not get the full market price for a large shareholding, even if the sale is motivated by a desire to rebalance a portfolio or to release cash for some strategic purpose. Shareholders with large blocks generally do their best to sell them in small blocks in the hope that the market will not pay too much attention.

Whatever the reason for the fall, it might have nothing to do with sales. Share prices respond to new information reaching the market, and the market can adjust prices without waiting for purchases and sales to adjust through supply and demand. While

it is unlikely, there could have been a succession of news events that the market has perceived as negative over the past two weeks.

## **Requirement 2 – currency risks**

This is effectively a form of transaction risk. Snakwheel is committing itself to pay the E\$ equivalent of W\$20m each year for 5 years (presumably there will be an immediate payment followed by 5 further payments made annually and starting in a year). The present value of those payments will fluctuate if the E\$/W\$ exchange rates change during that period. The liability will not appear in the financial statements, so there will be no translation risk, the only concern is that the present value of future operating cash flows may be affected.

The starting point in evaluating the currency risk would be to review historical movements in the exchange rate. Past volatility may not necessarily indicate future exchange rate movements, but it is a logical starting place. The press can also be reviewed in order to establish whether there have been any significant economic adjustments by either of the governments in case that could render past volatility unrepresentative of the future.

There is also a forecast exchange rate implicit in the interest rates offered in both Westaria and Eastlandia. It would be possible to determine the market's expectations of the movements over the five-year period by simply looking at the differential interest rates.

It could be argued that there is very little point in evaluating the potential currency movements because the commitment lasts only 5 years, and the likely impact is only likely to be material if the cost in W\$ is expected to be dramatic. It should also be noted that VDS appears to be offering an immediate response to a problem that will cost a great deal if we pay the ransom (and the perpetrator may demand further payments). The company can also protect Snakwheel's data over the next 6 years, thereby ensuring the continuation of IT operations for that period. It seems rather foolish to be discussing the possibility of currency exposure on VDS's fee under those circumstances because it seems as if Snakwheel has little real choice.

## SECTION 3

### Requirement 1 – ethical dilemma

The principle of objectivity would require the Board to act without bias or the influence of other people overriding professional judgement. This principle would suggest that the Board should have chosen whichever response would have maximised shareholder wealth. The decision to inform the Police will always have been a contentious one because it would never have been clear whether doing so would have benefitted Snakwheel. Making the report could have encouraged the hackers to have triggered the malware in order to destroy evidence or to demonstrate their capability to other businesses. The fact that hindsight shows that the Police investigation resulted in the arrest of the hackers and discovered that the threat was based on a bluff is not relevant. The Board should have been free to make that decision on the basis of the economic interests of Snakwheel and the directors should not have been biased by a desire to protect their reputations.

The principle of integrity requires that the Board should have been straightforward and honest in making this decision. This appears to have been the case because there is very little commercial logic associated with paying the ransom. There would have been no benefit from paying the W\$50m because the hackers could easily have demanded further payments. The hackers are criminals who wish to earn money from extortion, and so any promises that they make about leaving the company unharmed should not be trusted. It could be argued that the only real advantage to paying the W\$50m would have been that the Board could then have argued that everything possible was done to prevent a catastrophic attack on the IT systems, which is not consistent with protecting the company's interests.

The principle of confidentiality suggests that the Board should not have disclosed professional information unless necessary. Informing the Police could be viewed as a breach of that principle because it could have led to unhealthy disclosure. It could have been preferable for the Board to have engaged IT security consultants to investigate the threat and seek a satisfactory outcome. The Police would prioritise the identification and arrest of the hackers, even if that meant acting in a manner that led to the malware being triggered. The Police also had an incentive to release details of a successful arrest, which could draw attention to the possibility that Snakwheel's system is vulnerable to attack.

The principle of professional behaviour would require compliance with laws and regulations and avoiding reputational damage. This would tend to imply that anyone who was aware of a criminal act should inform the appropriate authorities in order to have the matter investigated. It could be argued that voluntarily paying a criminal in the manner demanded by the hackers would mean that the Board was implicated in a criminal act, through collusion. Reporting the matter to the Police will create the possibility of the matter being resolved in Snakwheel's favour without risking the Board being accused of any crime. From a reputational point of view, paying the ransom will increase the risk for all other companies because the criminals will have been encouraged by their successful attack on Snakwheel.

## **Requirement 2 – cyber security**

The Board appears to have been taking it for granted that availability is more or less guaranteed by the fact that the company maintains a hot backup at a remote site. In the worst possible case, the Board has assumed that the backup copy can be activated and brought online almost instantly, and so business will not be lost. The ransomware incident highlighted a credible threat that malware that would encrypt data at the primary site could also encrypt the backup data, thereby depriving Snakwheel of the data held on its systems. The hot backup can be relied on to protect against data loss due to disruption of hardware, such as a fire at the primary data centre. It appears that the constant updating that ensures that the backup data is current also creates a vulnerability. It seems likely that protecting the data against physical loss has left it at greater risk of electronic destruction through the abuse of the links used to maintain copies.

The availability objective will have to be reviewed in the light of this event, with thought given to adding a further layer of security so that the threat arising from the link between the two sites is countered. Perhaps the need to protect availability requires a compromise over the policy in terms of hot backups. It may be more efficient to make backup copies of data files at regular intervals and for the backups to be scanned thoroughly for any malware. Such a system would mean that the backup data files would be less up to date, and they would have to be updated before the backup could be brought online. This may not be a bad compromise if it also means that the Board can be confident that their backup files are available to them.

The confidentiality threat appears to have been caused by theoretical concerns arising from internal conversations within Snakwheel. The fact that the threatened disruption was a bluff makes it more difficult to tell whether there is a credible threat to the confidentiality of data. Snakwheel must ensure that confidentiality is maintained to the fullest possible extent because it is likely to lose business if its customers have their personal data abused. The company will also be subject to possible sanctions because of the laws relating to the safeguarding of personal data.

The nature of Snakwheel's business means that it would not be possible to guarantee the absolute protection of confidentiality at all times. The system is accessible through websites and apps and is linked to the systems of the restaurant chains. All of those links make it difficult to ensure that unauthorised access to data will never occur and that files will never be abused. It may be necessary for Snakwheel to plan for the possibility of minimising the disruption associated with any successful breach of confidentiality. For example, stored payment details might include customers' credit card numbers, but not the three-digit reference number on the back of the card. This would make it difficult for hackers to abuse personal data.



## STRATEGIC CASE STUDY

MAY & AUGUST 2022

### EXAM ANSWERS

#### Variant 4

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#### SECTION 1

##### Task 1

##### Requirement 1 – Competitor analysis and customer analysis

##### Competitor analysis

Snakwheel needs to understand the potential competition associated with this venture in order to understand the business risks that it will involve. At present, Luvleegift appears to be the only company in the market for personalised goods that can fulfil an order for collection from a local supermarket within an hour. This may reflect different business models. For example, competitors might choose to work from large fulfilment centres that can create goods for prompt dispatch by post or courier for delivery within a few days. Competitors will only be able to compete directly with Luvleegift and Snakwheel in terms of delivery times if they adopt the geographically dispersed approach.

This is an ideal time to study and compare Luvleegift and its competitors because there may be alternatives who would be a better supplier with which to do business. It would create a conflict of interest for Snakwheel to work with more than one gift manufacturer, just as none of its restaurant chains are in direct competition with one another. Snakwheel should ensure that it commits itself to the company that will generate the most profitable business within this sector.

If possible, Snakwheel should attempt to determine how the competitors will respond to Luvleegift's initiative. At present, they appear to be indifferent to the strategy of rapid fulfilment because Luvleegift is the only company that offers collection within one hour. The move to delivering gifts within that same short timeframe could provoke a response from competitors who are afraid that Luvleegift will promote that service heavily. If this is a relatively new industry, then it may be difficult to draw meaningful information from company histories, but if the competition tends to offer an aggressive response to any attempts to expand and take business then the investment that Snakwheel will have to make will be at greater risk. It may be that competitors all

pursue their niches within the market for personalised goods and are willing to leave Luvleegift alone while they follow their interests.

### **Customer analysis**

Snakwheel is effectively selling an express delivery service to Luvleegift, which is a commercial customer. Snakwheel will also be dependent upon the demand for that service from the consumers who will buy goods for home delivery.

Snakwheel's customer analysis of Luvleegift should take account of consumers' expectations of service levels and the manner in which the courier service will be assessed. Snakwheel must ensure that it will be able to commit the required capacity to meet Luvleegift's expectations without adversely affecting the core business elsewhere. Luvleegift's finances will have to be reviewed carefully because it is going through a period of rapid growth, which could put a strain on cash flows. It is also important to understand whether demand for this type of gift is heavily affected by seasonal factors, which could complicate Snakwheel's approach to allocating resources.

Consumer demand is also a significant concern for Snakwheel. The fact that demand for personalised products has grown to the point where a further 50 outlets were opened is encouraging. This does not, however, guarantee that demand for such gifts will persist, in which case, demand for delivery will inevitably decline. There may also be a limit to the demand for home delivery, given that many customers will visit their local supermarket regularly anyway. Consumers could use home delivery to deliver gifts directly to their recipients, although most people prefer to give gifts to their recipients in person.

## **Requirement 2 – Scenario planning**

### **Increase in interest rates**

An increase in interest rates will increase the cost of credit card interest, which might discourage consumers from charging discretionary purchases, such as expensive gifts to their credit cards. Many consumers do not pay off their card balances in full every month, and so they may find it expensive to use this service.

Increasing interest rates will also increase the cost of mortgage interest, which will further reduce the amount that many consumers have to spend on gifts.

Demand for personalised gifts may be relatively inelastic in these circumstances because consumers might continue to buy items that demonstrate that the giver has put some thought and effort into choosing a present. Snakwheel might have to prepare for the possibility that consumers make smaller purchases, perhaps ordering a personalised greetings card and nothing else, instead of a card plus a gift. Smaller orders will cost just as much for Snakwheel to fulfil, but the payment will be less. It may be necessary for Snakwheel to consider withdrawing from the arrangement in that event.

### **Increase in rents**

Snakwheel should attempt to predict Luvleegift's likely response to any such increase in fixed operating costs. Snakwheel will not be required to bear any of the additional cost, but Luvleegift's response could have an indirect impact. In the worst possible case, Luvleegift may cease operation, in which case, Snakwheel will lose some revenue. This would be undesirable, but not catastrophic, because Snakwheel will be able to reduce the number of couriers and so operating costs will decrease in line with revenue. There could be some reputational damage to Snakwheel because its delivery service will have been promoted and so now the company will be associated with a failed venture.

Luvleegift may be forced to increase its selling prices in order to cover the additional rent costs. This could reduce sales volumes and so impact the number of deliveries made by Snakwheel. To some extent, the loss of volume will be offset by the fact that Snakwheel's delivery charges are based on the value of the gifts, and so the charge per delivery will increase.

## SECTION 2

### **Requirement 1 – Acquiring Luvleegift**

There are some significant opportunities for synergy in this proposed acquisition and would be a strong indicator that it would be logical to proceed. Firstly, since 55% of sales from units served by Snakwheel have been for home delivery, there is a market for home-delivered personalised gifts. This does not necessarily imply that there is synergy associated with an acquisition, but it does suggest that the two businesses are potentially complementary. There could be some genuine synergy if Luvleegift units could be installed in more of Snakwheel's dark kitchens because couriers will be located to make collections from them in any case. Basing units in those kitchens will also enable Snakwheel to earn revenue from spaces that might otherwise be unused.

Successfully integrating Luvleegift into its business will demonstrate that Snakwheel is a versatile local delivery facilitator that could be more than just a fast-food delivery service. It might encourage other businesses to consider collaborating with Snakwheel. For example, pharmacists could use its couriers to deliver prescriptions to patients. This is important because the fast-food home delivery industry is close to saturation, and so there is little scope for organic growth. Snakwheel will also be unable to expand by acquiring other home delivery platforms because that will create a conflict of interest if they start to serve chains that are in direct competition, such as two burger chains.

The biggest concern about the commercial logic of this acquisition is that Snakwheel is good at managing delivery services, but it has no direct involvement in managing a business like Luvleegift. Snakwheel has no experience in managing businesses that operate from fixed locations or managing inventory and of designing and manufacturing products. It would probably be more cost-effective to leave Luvleegift to operate independently and to make its profits from the sale of gifts, while Snakwheel continues to generate revenues from the delivery service. This will also give Snakwheel greater flexibility in the event that demand for personalised gifts declines.

It is also clear that Luvleegift's success is largely attributable to the commercial skills of its senior management team, who might be reluctant to remain with the company in the event that it is taken over. The company is still going through a process of growth and transition, with the opening of new stores and the creation of a successful home delivery business. It might be necessary to offer the directors a significant amount to persuade them to sign a binding contract to remain and work to complete the reinvention of Luvleegift. If they leave and the Snakwheel Board struggles to manage without them, then Snakwheel's shareholders will believe that their Board is incompetent.

### **Requirement 2 – Share prices**

In an efficient market, share prices reflect all information in an unbiased manner. Share prices and, by implication, movements in share prices are rational and reflect the collective opinion about future cash flows.



If that is the case, then the market price will only increase if the market interprets some fresh piece of information as implying “good” news, with future net cash flows being expected to increase or the cost of equity decreases. If the market believes that Snakwheel plans to acquire Luvleegift and that the acquisition will prove beneficial to the group, then it is to be expected that Snakwheel’s share price will rise. It could be argued that the increase in share price implies that the market supports the Board’s decision.

Unfortunately, the market does not determine prices in a transparent and observable manner. Share prices are driven by the laws of supply and demand, with individual market participants influencing prices through buying and selling shares. The rumours that have been reported to the Non-Executive Chair merely reflect the opinions of a small group of investors. If the increase in the share price occurred as rumours of an acquisition started to spread, then the explanation that the market supports that proposal has some credibility. It does not follow that the share price was attributable to those rumours. The market could have been responding to other news, which may not necessarily relate directly to Snakwheel. For example, changes in the Westarian economy might have been viewed as beneficial and resulted in a higher share price.

The Board should not place too much emphasis on the market’s opinion of any proposed course of action because the market’s opinion may not always be fully informed. The market price can only reflect the information that is available to the market at any given time, and the Board will always have access to detailed information that is kept confidential. The market’s confidence in a rumoured change could be ill-informed, and so the Board should not necessarily regard it as confirmation that a decision will be the correct one. Having a positive reaction from the market will make it less likely that the shareholders will criticise the Board for any decision consistent with that, so the implementation may be easier.

The Board cannot read much into the increase in Luvleegift’s share price. Rumours of a takeover will always inflate the market price because of the belief that a buyer will emerge who will wish to pay a premium for a large block of shares. Existing shareholders will be reluctant to sell unless offered a higher price, and so the price will drift up. It is also a well-established tactic to buy shares in advance of a bid in order to reap an almost guaranteed profit when the bid is finally announced. Luvleegift’s increasing share price itself means very little to Snakwheel’s Board other than that the bid may not be viable if the price increases beyond an economic valuation. Also, the price will increase further if a bid is likely to occur, so it would be sensible for the Board to keep any interest confidential.

## SECTION 3

### **Requirement 1 – Ethical and governance issues**

From an ethical point of view, the mission statement sets out Snakwheel's fundamental objectives, which is relevant to any stakeholders who have an interest in the company's activities and the culture in which these are conducted. It could be argued that the existing mission statement is not misleading in any material way because all that has happened is that the nature of the products that Snakwheel plans to deliver to customers' homes has broadened slightly. The concept of objectivity would suggest that it would be wrong for Snakwheel to continue with an outdated mission simply to avoid the work required to prepare an update. There is no question that Luvleegift's product range does not consist of fast foods, and it is to be hoped that personalised gifts will comprise a material component of future Group sales. The principle of professional behaviour is also relevant because Snakwheel should be able to demonstrate that it is complying with its mission. If it is unable to do so because the mission is holding it back, then the mission should be updated. The company should also avoid discrediting itself by making inaccurate claims in its mission, when it would be a simple matter to update the mission to reflect the new line of business.

From a governance point of view, the Board could be held accountable for its performance against the criteria set out in the mission statement. There is an argument that the mission describes the business and its objectives at a fundamental level, which suggests that Snakwheel should not sell personalised gifts if its mission is to deliver fast food. There is a cynical argument that many companies do not pay a great deal of attention to their missions and simply operate in the manner that is felt to be most suitable at any given time and under present circumstances. The Board should not take such a cynical view, though, because it will imply that they are equally cynical over more significant matters and so may not be entirely trustworthy. The directors risk being accused of dishonesty over the company's mission, and so they could undermine stakeholder confidence for no good reason. An updated mission could be publicised and will provide an opportunity to promote the changes that are going on in terms of strategic management within the Group. At worst, nothing will change, but such publicity could enhance the share price.

### **Requirement 2 – Board changes**

There are only five executive directors on Snakwheel's Board, so the addition of two additional directors could disrupt the dynamic of the Group. The new appointments have worked together before and will undoubtedly share ideas and opinions about the best way to engage with their fellow directors. This could prove divisive, particularly if the "old" directors are constantly arguing with the "new". This would be an unhealthy context in which to set a strategic direction that would maximise shareholder wealth. The Non-Executive Chair will have to manage Board meetings carefully so that all members feel free to express their opinions, but any disagreements are discussed in a calm and rational matter. Given the challenges of integrating an acquisition into the Group, it may be appropriate to restrict Board discussion to major strategic matters and to allow the new directors to work closely with the management team at Luvleegift.

There could be territorial disputes arising from the previous roles of the new directors. Luvleegift's former CEO may be reluctant to respect the authority of Ahmad Farah as CEO of the Group. He or she may even be unwilling to defer to the Board on matters concerning Luvleegift. There could be a similar issue with the former Marketing Director, who may view Rashida Tull as a rival. This should be addressed by requiring both new directors to participate in an induction programme when they are first admitted to the Board. During that program, it should be made clear what the new directors' responsibilities will be and how they should plan to engage with the other directors. Ideally, both directors' responsibilities should complement those of the existing executive directors so that there is little or no scope for misunderstandings over who is responsible for what area.

Snakwheel had 5 executive directors and 4 non-executives before these new appointments. The new directors will change the balance to 7 to 4, which many stakeholders would regard as an imbalance. It would be preferable to have roughly equal numbers of both executives and non-executives on the Board so that the latter are viewed as having sufficient presence. The period after the acquisition of a major new subsidiary, expanding the Group by 15% in terms of market capitalisation requires adequate resourcing of the oversight of the Board. The recruitment of two or even three new non-executives should be undertaken as a matter of priority, although sufficient time should be allowed to ensure that the appointees are qualified and competent. The nomination should make a point of appointing suitable candidates from outside, maintaining the diversity of the Board. As part of that diversity, the new non-executives should not be drawn from the former non-executives of Luvleegift, who will have been made redundant.

The two new directors may be used to a more entrepreneurial style of management than that of Snakwheel's Board. They were able to fund and implement a complete change of strategic direction when their previous business started to lose popularity. Snakwheel has been a successful business that has grown since it was first created, but it has not been subject to a great deal of change during that period. There could be a risk that the new directors will be bored by the slow pace of change at Snakwheel and may press for further changes such as the recent acquisition of Luvleegift. It may be too late, but Snakwheel's decision to appoint these two directors should have been based on a specific need of their expertise, perhaps to manage the integration and ongoing management of Luvleegift. The job descriptions for the new directors should match their skills and potential to lead Snakwheel in new strategic directions. They are likely to expect to have the opportunity to lead the development of the personalised gifts market. The new directors should be encouraged to apply their skills to helping Snakwheel to grow in new directions because fast food delivery is already a mature industry and is at saturation point.



## STRATEGIC CASE STUDY

MAY & AUGUST 2022

### EXAM ANSWERS

#### Variant 5

*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 – driving behaviour**

The political issues arising from this story are complex and potentially in conflict. For example, some political parties will be more concerned with preserving courier jobs and protecting a major business, while others will be focussed more on law and order. Snakwheel will have to consider whether the government is likely to introduce regulations in order to demonstrate its support for the Police Service or whether it will do nothing in order to support business. The starting point would be for Snakwheel to analyse the reaction of the press to the Chief's warning. If further stories appear in the news, then the government will be under greater pressure to respond with tougher legislation. As a quoted company, it is also likely that Snakwheel will have contacts within the government that it can use to evaluate and possibly to influence the extent to which the government is likely to react.

The social issues are complicated by the fact that individuals are likely to claim that they care about the safety of road users if asked, but they will not necessarily put themselves to any great inconvenience. Consumers will still order fast food for home delivery, even if they are aware that the delivery couriers may drive recklessly and endanger themselves and other road users. From a purely social perspective, Snakwheel should probably focus more on ensuring that it demonstrates a commitment to obeying the law. For example, taking greater care to check that couriers are licenced and insured. Snakwheel might also make a point of dismissing any couriers who are tracked travelling at excessive speeds by their apps.

The legal dimension is complicated by the fact that there is no real need to change the law. The behaviour of some couriers is already illegal. Snakwheel might encourage the Police Service to enforce the law more rigorously, perhaps by stopping couriers and checking their licences and insurance. Snakwheel will have to take care to avoid stricter laws being introduced that might impose a duty of care on employers. Any such change might be very inconvenient. This could be a case where the company should

use its contacts to lobby the government to persuade ministers that a change in the law would be counterproductive.

## **Requirement 2 – principal risks**

Snakwheel's annual report contains a report that describes the "principal risks" faced by the company and the mitigation that is in place. Readers of the annual report are going to believe that all principal risks that meet the recognition criteria in terms of likelihood and impact will be included in that report. The principle of professional competence and due care requires compliance with relevant regulations and standards. It is not mandatory to provide a comprehensive risk report in most countries, but when companies choose to do so, stakeholders (particularly shareholders) are entitled to expect that all high impact risks are described. Even if there is not a specific requirement against which to check whether any particular matter requires disclosure, the title of the table implies that it would be misleading to omit a serious risk. In this case, Snakwheel faces the curtailment of its services because of zealous police action that could make it less desirable to work as a courier. The incidence of accidents could also lead to claims against delivery platforms because of perceptions that couriers are being pressured to make speedy deliveries.

The principle of professional behaviour requires Snakwheel to comply with laws and regulations and to refrain from behaviour that might discredit the company. Snakwheel's arguments for delaying the disclosure from its annual report until the matter has been investigated are unacceptable in this case because there are risks associated with paying couriers by the number of deliveries being made. The statistics cited by the Police Service make it clear that the industry faces a threat, and it would be reckless to imply that Snakwheel is not involved in that. The mitigation of this risk will undoubtedly amount to ensuring compliance with the rules that have already been identified as necessary, such as ensuring that couriers hold the relevant driving licences and are properly insured. There is sufficient information to make an adequate disclosure in the statement of principal risks, even if some additional work is required by the Board in evaluating and mitigating this risk.

The principle of integrity requires Snakwheel to be straightforward and honest in all relationships. In this case, omitting a disclosure because a fuller evaluation would be possible is neither straightforward nor honest. Snakwheel is aware that it does not pay its couriers particularly well, and so they are likely to be under pressure to cut corners in order to maximise their income. Couriers can earn more by driving recklessly and so making more deliveries. They can also save money by skimping on insurance. It would appear that Snakwheel has attempted to avoid the costly effort required to properly manage the actions of couriers by trusting them to comply with all relevant motoring laws. Unfortunately, couriers are likely to lose their jobs if they admit to problems, such as the loss of their licences or their vehicles being unroadworthy.

The principle of objectivity requires Snakwheel not to compromise professional or business judgements. This may have been an issue in this case because Snakwheel may have been reluctant to report its exposure to a significant risk that will be difficult to control. Managing couriers in such a way that will address the concerns raised by the Police Service will involve significant costs for systems to check compliance with regulations such as insurance. Even if such a system is introduced, it will be difficult

to design a control that would prevent a courier from borrowing an uninsured vehicle and using it to make deliveries on Snakwheel's behalf. Understandably, the Board would wish to distance itself from this risk, but that is not an acceptable reason for excluding the disclosure from the statement of principal risks. The shareholders and other stakeholders are entitled to be kept aware of the risks that the company faces and should be equipped to hold the Board to account for such risks.

## SECTION 2

### **Requirement 1 – personal liability**

The lawyer's letter implies that the question of whether the directors have a personal liability is "complicated". It would be reckless for the Board to accept personal liability under criminal law without establishing what that liability is. If the directors accept such a vague personal liability, then the shareholders might be concerned that they might be equally irresponsible in their working lives and their management of the company. It would be appropriate for the directors to clarify their potential culpability, otherwise, they could be seriously distracted in the event that a courier is involved in a serious accident and the authorities are threatening to press charges against Board members as well as the courier. If the capital markets are uncertain about the Board's motivation in the event of an incident, then perceptions of risk will increase, and the share price will fall. Clarifying the law will also help the Board to justify any "reasonable" precautions that it takes to manage the actions of its couriers. From a governance point of view, the shareholders might be reluctant to encourage excessive spending that could be interpreted as a desire by the Board to protect its interests.

The Board should consider the longer-term implications of permitting a criminal culpability to continue unchallenged. Some members of the Board may be reluctant to have that threat hanging over them, and so they may resign if the opportunity arises for them to work elsewhere. It would be natural for directors to consider the impacts on their careers and their personal lives if they were at risk of being prosecuted in the event that a courier was found guilty of reckless driving or of driving without insurance. It would be difficult to predict whether any given director might leave because of this threat, as it may be a contributing factor that leads to the nomination committees of other companies approaching Snakwheel's directors in the belief that they might be prepared to move. It may also make it more difficult for Snakwheel to recruit directors when any places on the Board fall vacant. It would be prudent to resolve and hopefully eliminate this exposure from the perspective of succession planning on the Board.

It could be argued that accepting criminal culpability will send a very strong signal to society that Snakwheel's directors take their responsibilities seriously. The fact that couriers have been accused by the Police Service of endangering other road users would suggest that anything that can be done to demonstrate that the Board intends to manage the associated risks will enhance the company's relationship with all stakeholders. The pressures that are creating these risks were, after all, created by the Board when it designed the systems and set the rewards for employees. Simply offering a verbal commitment that these risks will be addressed will do very little to reassure stakeholders. and so it would offer more reassurance if the Board accepted personal culpability for failing to address misbehaviour by couriers. There will always be an agency issue in the absence of such culpability because the Board will benefit from greater profits associated with more motivated couriers.

The advice from the lawyer suggests that culpability will only be an issue if the directors have failed to take any reasonable steps to prevent driving offences, which suggests that the culpability may not be too serious.

The Board is already aware of the risks associated with couriers driving without insurance and of other potential risks, and so it appears that it should be sufficient to take reasonable precautions to mitigate those risks. If the Board takes all reasonable steps, then it would be legitimate for Snakwheel to accept responsibility for any legal fees incurred in mounting a defence for the Board. Any such defence should prove effective under these circumstances because the prosecution would have to demonstrate recklessness on the Board's part. It would not be sufficient to prove that a courier had been involved in a motoring offence unless it could also be shown that the company's systems had contributed to the commission of that offence.

## **Requirement 2 – internal controls**

Snakwheel should maintain a register of the vehicles used by its couriers. When couriers sign up with the company, they should be required to provide and update documentary evidence that the vehicle has been insured for work purposes and that they hold the required licences for their vehicles. Couriers should be required to use their apps to take photographs of their vehicle registrations and their faces at the start of each shift. The system should check the identity of the vehicle using optical character recognition and the identity of the courier using facial recognition based on couriers' licences as scanned on initial registration. Couriers should not be given any work if either the check fails or if the app does not place the couriers in their required locations.

This control will reduce the risk of a courier switching to an alternative and potentially uninsured vehicle without informing Snakwheel. It will also make it more difficult for couriers who do not hold driving licences to obtain work from Snakwheel, although it will not do much to deter couriers who lose their licences after registering. The fact that the system allows for the location at the time of logging in through the app is an advantage because it would make it more difficult to photograph a different vehicle from the one that the courier will drive.

Snakwheel's app can always track the location of courier drivers when they are working for the company, and the app is based on a satellite navigation system. Snakwheel's IT system should be able to measure the speed of travel at any given time and compare that with the local speed limit. Couriers could receive warnings if they exceed the speed limit at any time during their working hours, and repeat offences could result in them having their shifts curtailed in the case of minor offences and their dismissal for serious offences.

This control will demonstrate that Snakwheel is taking all reasonable steps to discourage speeding by couriers. It could be argued that the fact that the company can track location and speed suggests that compliance with speed limits can and should be monitored. However, it could also be argued that this control would do little to discourage reckless or aggressive driving that remains within the speed limit.



## SECTION 3

### Requirement 1 – <IR> reporting

Human capital comprises the competence, capability, experience and motivation of Snakwheel's staff. The resignations will effectively cost Snakwheel a great deal if there are problems in recruiting replacement staff in sufficient numbers to keep up with demand. It will be difficult to decide how best to reflect the resignations under this section of the report because it would appear to have cost the company several of its most experienced and productive couriers. The fact that service levels have been reduced temporarily should probably be reported as a concern arising from a necessary change in employment practices.

Arguably, Snakwheel can claim that it has systems in place to ensure that there will be no significant loss of capability or meaningful loss of experience as a result of these resignations. The app provides satellite navigation facilities that will enable couriers to navigate to and from restaurants and delivery addresses. Experienced couriers might have a better understanding of the best places to park in order to access collection and delivery locations. In the short term, new couriers will have to learn a great deal about their areas of operation, but they will be working within defined areas.

The couriers who have left were not necessarily motivated to work towards enhancing Snakwheel's interests. They were willing to break the law, in some ways, by driving without a licence or insurance, and so were willing to harm the company's reputation in the process. It could be argued that the nature of the couriers' work requires little need for collaboration because couriers work largely independently.

Social and relationship capital focusses on engagement with stakeholders. In this case, Snakwheel can claim to have invested heavily in educating its couriers on the need to drive safely and responsibly. The company has responded to their concerns by requiring all drivers to complete an online training programme that advises prospective couriers about the issues associated with driving professionally and also about ensuring the vehicles are properly insured. This is very consistent with the concern that Snakwheel's social licence to operate had been at risk because of motoring convictions and beliefs that the company lacked the ability to ensure that its couriers were driving safely and responsibly. The fact that the fast food delivery industry had attracted the interest of the Police service means that its couriers were at risk of being stopped and having their details checked. If couriers behave themselves more responsibly, then consumers will be less likely to feel guilty about encouraging home deliveries that attract reckless drivers into their neighbourhoods.

The report might argue that Snakwheel has acted decisively to reduce the need for the Police Service to ensure compliance with motoring laws. The law sets out several specific requirements and couriers had previously been known to breach those. By imposing checks and requiring training, Snakwheel has removed some of the burdens to regulate driving and so has made the roads safer for the whole of society.

## **Requirement 2 – dividend**

The starting point would be to establish what the market's expectations of future dividends are. There is a strong argument that market capitalisation is a reflection of the market's expectations of future dividends. Market capitalisation is important because it is a direct reflection of shareholder wealth, but it is the result of combined market forces and that makes it difficult to understand what factors have driven the figure. Snakwheel's finance team should start by gathering as much information as possible about the market's expectations of dividends. Analysts' reports about the company and the fast-food industry might indicate the dividends that these analysts are expecting, and those might indicate whether the Board's best prediction will prove disappointing.

The Board should supplement desk research based on reports and other documents by calculating relevant ratios and other indicators to check the credibility of the expectations concerning dividends. Ratios such as dividend yield and the results of calculations based on the dividend growth model will indicate as to whether the market has a particular expectation of dividend. Those calculations could be based on the data that was available at the time of last year's dividend announcement and at various interim stages. The figures should be compared with those relating to other companies in the industry. It is unlikely that this will provide an accurate estimate of the precise amount that is implicit in the market's current prices, but it will at least establish whether the figures that the Board has in mind are credible.

It should be remembered that the capital market is generally believed to be efficient, which means that the market will be aware of the significant expenditure on training new couriers and the loss of staff due to new policies. The market is likely to have taken account of the impact of those costs and problems in predicting future dividends. It may be that the market has already taken expectations of the disappointing dividend payment into account in setting the share price and that the share price will not be affected. The Board should take care not to overreact to the possible disappointing dividend because it could simply confuse the market into believing that there is further bad news on the way.

The response should take into account the extent of any disappointment. If the dividend is expected to be only slightly less than expected, then the impact on the share price will be minimal and the simplest and most effective response would be to wait until the normal announcement date and explain the circumstances when the figures are announced. The market will then have the figure, probably the annual report, and will be able to decide on the overall impact on the company's future. If the disappointment is likely to be severe, then it might make sense to brief key analysts on the extent of the problem with the couriers. If key decision-makers are aware that the dividend will be less than expected, then the share price will decrease, but if the analysis knows that they have been briefed about the worst possible outcome then the market will not panic.

# STRATEGIC CASE STUDY

## MAY & AUGUST 2022

### EXAM ANSWERS

#### Variant 6

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#### SECTION 1

##### **Requirement 1 – stakeholder interests**

The “other” restaurants will have high interest because they rely heavily on Snakwheel to facilitate their home deliveries. If the acquisition proceeds and Taystburger focusses on the delivery of its burgers, then the other restaurants may lose revenue as a result. In theory, the other restaurants will have significant power over Snakwheel because they are likely to provide roughly 2/3 of the company’s revenues between them. Burgers account for roughly 1/3 of the fast-food market. There is, however, little that the other restaurants can do in the event that they are unhappy with the prospect of this acquisition. They will be bound by a contract and will almost certainly suffer penalties if they breach that. They may struggle to move to a different home delivery platform because the others will already have a variety of restaurants and so will be unable to accommodate Steempizza if that they are already working with a pizza chain. It may be inefficient for the chains to establish their delivery services across the country because some areas will have insufficient demand to justify such a move.

In the first instance, Snakwheel should seek to negotiate with Taystburger under conditions of extreme confidence. Any leaks will create uncertainty in the minds of the management teams at the other restaurant chains and that could lead to irrational responses. Taystburger should be asked to indicate its intentions about the other chains, so that Snakwheel can develop effective contingency plans that can be revealed in the event that a bid to acquire Snakwheel is announced. Logically, Taystburger will enjoy greater synergy from the acquisition if the other chains continue to work with Snakwheel, even if Snakwheel becomes a subsidiary of the Taystburger Group. If Snakwheel can demonstrate that it can scale up its capacity in line with Taystburger’s plans, then the other chains will be reassured that their customers will continue to enjoy good service.

Snakwheel will have to ensure that Taystburger is aware of any binding contracts that are in place between Snakwheel and the other chains and that Taystburger is prepared to honour those contracts. Snakwheel will retain its legal identity even if

control is acquired by Taystburger, and so it cannot set aside its prior commitments to the chains that it works with. It is important to ensure that there are no misunderstandings because the other restaurant chains will be concerned that their interests might be overlooked in the course of the acquisition. It would be helpful if Snakwheel's Board can reassure them once news of the bid to acquire the company is announced. The Board should ensure that all terms of the contracts are fully understood. For example, Snakwheel will almost certainly owe a duty of confidence to all of its restaurant chains. Taystburger may be tempted to make use of data held by Snakwheel concerning demand and other statistics relating to the chains. The chains will require reassurance about Snakwheel's ability to meet such commitments.

The chains will require specific reassurance about whether Taystburger wishes to grow at their expense. The market for home-delivered fast food is mature, and it may be difficult for major chains such as Taystburger to maintain organic growth. The chains are likely to be nervous that Taystburger wishes to acquire Snakwheel in order to promote its burgers to what is effectively a captive audience. Customers rarely change from one platform to another, so the acquisition of Snakwheel could benefit Taystburger if it promotes its burgers to all customers when they log into the app. It would not be difficult to make Taystburger more visible when customers open their apps or for customers who order pizza to be emailed offers of discounted burgers. Managing that concern would require Snakwheel to make specific commitments that any such poaching of customers by Taystburger will not occur. Any such promise would have to be backed up with the provision of key performance indicators relating to web traffic through the app so that chains can maintain control over their interests.

## **Requirement 2 – ethical implications**

The principle of objectivity requires the Board to refuse to be biased by any conflict of interest in advising the shareholders. In this case, the Board is faced with a dilemma that Snakwheel will be absorbed into a much larger group, which will make the Board answerable to a parent company's directors. They might also find themselves faced with the loss of their jobs because Taystburger may wish to replace the Board with its management team. Snakwheel's Board should declare its interest in any advice that it offers to the shareholders and should also ensure that any advice is offered in the shareholders' best interests.

The Board should also comply with the principle of integrity, which requires them to be straightforward and honest in their relationships. The shareholders pay the Board to manage Snakwheel in their best interests and to maximise their wealth. It would be unacceptable for the Board to abuse its position of trust by advising the shareholders to reject an offer because its acceptance would harm their careers. Snakwheel's directors should act with integrity in their dealings with both Taystburger and with Snakwheel's shareholders. The directors should not seek to benefit themselves in their dealings with either party.

The principle of professional behaviour requires compliance with laws and regulations and avoidance of adverse impacts on reputation.

The directors' contracts will undoubtedly bind them to work in the shareholders' interests, and so it would be a breach of contract law to abuse any opportunity. If it becomes known that the Board has acted in its interests and against those of the company and its shareholders, then they will undermine their reputations. They will also risk a more general governance scandal that will have an adverse impact on company directors in general.

## SECTION 2

### Requirement 1 – share prices

The 9% increase in Snakwheel's share price suggests that the market has been taken by surprise by the announced bid. Strong form market efficiency suggests that all information will be incorporated into the share price, but that is only possible if the information is released somehow, which generally arises because an insider traded based on confidential information. In general, the share prices of acquisition targets tend to increase because the prospective buyer will be willing to pay a premium over the market price in order to acquire a controlling interest. It is logical for insiders to buy shares before the announcement to sell immediately after the inevitable increase in the share price. The fact that the share price increased significantly when the announcement occurred tends to suggest that there had been no insider trading, which may reflect the fact that trading while in possession of price-sensitive information that is not available to the market is a criminal offence.

The 2% adjustment by the end of the day suggests a slight market overreaction to the announcement of Taystburger's plans. This is consistent with the possibility that the market was skewed by speculative forces. In the short term, the possibility that some buyers might be willing to overpay for shares would make it logical to inflate the share price slightly. Over the course of the day, it appears that the market calmed down and the speculative forces withdrew. The slight decrease could also reflect the possibility that the capital markets spent the day reflecting on the news, analysing the information that was available more effectively and gathering whatever additional information was available.

The significant decrease in Taystburger's share price implies that the market is not impressed with the planned acquisition of Snakwheel. If the capital markets view this as a negative NPV investment, then the share price will decrease. From the market's point of view, there may be a lack of commercial logic to the acquisition of a home delivery platform because that is not an area in which Taystburger has any particular expertise. The success of this investment will depend on Taystburger's ability to generate significant synergies from the acquisition and that may be difficult because Snakwheel's existing management team appears to be doing a good job.

The drastic reduction in the share price may not persist because the announcement merely states that a bid will take place. There has been no formal announcement of the price that will be paid for Snakwheel's shares. Taystburger may be able to negotiate a better share price, especially if it threatens to make alternative arrangements for home deliveries if the bid is unsuccessful. It is also very early in the acquisition process. Taystburger has not yet been able to inform the market of why it wishes to acquire Snakwheel or what its plans will be in the event that the acquisition is completed. It is natural for the share price to be depressed while those uncertainties are in place, but Taystburger can resolve that through clear and informative announcements in the future.

## Requirement 2 – risks

The first risk is that the dramatic increase in Taystburger's gearing will make the company's earnings per share more volatile, which could make the shareholders feel insecure and so put the directors under greater pressure. This is at a time when Taystburger is investing heavily in an acquisition that the capital markets regard as ill-informed, and so any problems with the integration or operation of the new subsidiary will put the Board under greater pressure. Gearing also has an impact on the beta coefficient, so the increase could increase the risk associated with owning the company's shares, further decreasing the share price. Pushing gearing up from 30% to 37% could have a dramatic impact on future borrowing capacity because there is more chance that Taystburger will be close to the debt limits agreed in existing loan covenants or even the new loan. Being close to covenant restrictions will also have an impact on the ability to raise funds quickly in the event of cash flow problems or future investment opportunities.

Borrowing from a foreign bank could make it difficult to deal with any problems that arise in servicing the loan. It seems likely that a loan equivalent to W\$2 billion will be a long-term loan, and Taystburger may face difficulties during the term of that loan. Normally, a borrower would hope to be able to negotiate an extension or some other concession in the event of problems because banks prefer to support their customers rather than foreclosing on them. A foreign bank may be reluctant to grant Taystburger any concessions that it seeks because of the difficulties associated with managing a defaulting loan made to an overseas customer. It may be regarded as more prudent to enforce any foreclosure rights immediately in case problems become more serious and the bank is faced with a loss.

Taystburger will be faced with a transaction risk on the W\$2 billion equivalent principal sum borrowed. If the S\$ strengthens against the W\$, then the cost of settling the loan will increase in terms of the W\$ that Taystburger has to find. The likelihood of that loan might be investigated by studying historical variations in the exchange rate between the two currencies in order to establish whether there is a historical basis for predicting such a risk. Those movements will also have an impact on the currency gains and losses appearing in Taystburger's financial statements.

There could be an economic risk associated with servicing the interest payments on this loan because any strengthening of the S\$ will increase the cost of paying the interest when converted to W\$. Fortunately for Taystburger, this risk would be offset by the International Fisher Effect. A strengthening of the S\$ will tend to lead to a decrease in S\$ interest rates. This economic relationship will probably be effective in the long term because Southland's Government will be keen to manage exchange rates. It might not be totally effective in the short term, with changes in the interest rates failing to keep up with changes in exchange rates. Given the size of the loan, even a short delay could prove expensive.

## SECTION 3

### **Requirement 1 – Board roles**

All directors are in exactly the same position as they were before Taystburger took control. All Board members remain in place and are subject to the same contractual rights and duties as they were. Effectively, they continue to be responsible for Snakwheel's strategic management and must act on behalf of the shareholders in order to maximise their wealth.

It would be sensible for the CEO to contact his counterpart at Taystburger and ask how Snakwheel's directors can assist in the transitional period while the company is incorporated into the Taystburger Group. Such conversations were not possible while Snakwheel was an independent quoted company because there would have been a diverse range of shareholders, none of whom necessarily had any intention of remaining in the long term. At this stage, Taystburger is likely to need information and advice about the management of Snakwheel and about its operations. The Board also has responsibilities for other stakeholders, particularly Snakwheel's employees. It should take whatever steps it can to ensure that Taystburger intends to retain staff. The directors may also feel that they have personal responsibilities to protect their jobs and make themselves valuable to Taystburger so that they stand a better chance of being retained.

The non-executive directors are in a more complicated position because it is unusual for a subsidiary to have non-executives, and so they are likely to face redundancy. In the short term, while they are still employed by Snakwheel, their primary role is really to offer oversight and monitor the integrity of governance procedures. For example, the executive directors may be tempted to manipulate reports and records submitted to Taystburger in order to enhance their prospects of being retained by the Group. The non-executives should report any such misbehaviour. The non-executives may also feel a sense of responsibility towards the 15% non-controlling interest, at least in the short term. It would be logical to persuade Taystburger to buy any such minority out so that the group has greater freedom to pursue profitable strategies. The non-executives may also be in a position to offer advice about governance matters to the board of Taystburger, bearing in mind that those serving on Board committees would have a good understanding of the executives' strengths and weaknesses.

### **Requirement 2 – cyber security objectives**

There is already a degree of integration between the two companies' IT systems because Snakwheel is already providing Taystburger with extensive home delivery services. The fact that Taystburger's motive for the acquisition of Snakwheel was primarily the expansion of delivery capacity for its burgers would suggest that Taystburger plans to make some changes to Snakwheel's systems.

Taystburger is likely to consider amalgamating the IT systems of the two companies so that there is only one system to be concerned about. The amalgamation will also make it easier to manage capacity and to be certain that systems are growing in line with the Group's needs as sales of burger meals expand.



The most immediate concern raised is that of availability because any breakdown in the system will mean that customers' apps will not work and so revenue will be lost. The seriousness of this threat is related to the extent of any possible breakdown. In the short term, customers are likely to remain loyal to the Snakwheel delivery platform. If there is an extended breakdown, they might be tempted to switch rather than do without fast food deliveries and then be reluctant to switch back.

Confidentiality is also critical, partly because the IT system will store customers' personal information and their payment details. The amalgamation of the systems could lead to inadvertent vulnerabilities that make it more likely that the system can be breached and sensitive data is stolen. Consumers are generally reluctant to trust businesses who allow their personal details to fall into the wrong hands so that might be one of the few things that could motivate them to switch platforms. Snakwheel's system also manages the process of home delivery for other restaurant chains whose interests will be damaged if Taystburger obtains access. Taystburger will wish to retain those chains as customers and manage the system so that the detailed information captured by the IT system is not abused by its management team.

Snakwheel's Board should arrange for Taystburger's IT managers to meet with their counterparts at Snakwheel so that both teams of IT managers can explore the challenges associated with combining the systems securely and efficiently. Snakwheel's IT staff should be given explicit permission to share access and provide information in order to make the most of this contact, although any exceptions, such as data relating to other restaurant chains, should be identified to both sides so that this does not become a source of conflict.

It may help to provide Taystburger with details of past internal audit reports on matters related to cyber security. These would reflect Snakwheel's experience of working with the app and dealing with the challenges of keeping a system secure, even when it is accessible to consumers. These reports might indicate the compliance errors that can occur and so leave security compromised.

## Strategic Level Case Study May 2022 - August 2022

### Marking Guidance

#### Variant 1

##### About this marking scheme

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- All marks on the scheme are designed to be awarded, and full marks should be awarded when all level descriptor criteria are met.

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

- Once you have selected the level, you will need to choose the mark to apply.
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**Summary of the core activities tested within each sub-task**

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

### SECTION 1

**Task (a) Identify** four of Snakwheel's intangible value drivers and evaluate how extending our service to include local independent restaurants will impact upon them.

<b>Trait</b>			
<b>1<sup>st</sup> driver</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies intangible driver	<b>1-2</b>
	<b>Level 2</b>	Offers some discussion of impact	<b>3-4</b>
	<b>Level 3</b>	Offers full discussion of impact	<b>5-6</b>
<b>2<sup>nd</sup> driver</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies intangible driver	<b>1</b>
	<b>Level 2</b>	Offers some discussion of impact	<b>2-3</b>
	<b>Level 3</b>	Offers full discussion of impact	<b>4-5</b>
<b>3<sup>rd</sup> driver</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies intangible driver	<b>1</b>
	<b>Level 2</b>	Offers some discussion of impact	<b>2-3</b>
	<b>Level 3</b>	Offers full discussion of impact	<b>4-5</b>
<b>4<sup>th</sup> driver</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies intangible driver	<b>1</b>
	<b>Level 2</b>	Offers some discussion of impact	<b>2-3</b>
	<b>Level 3</b>	Offers full discussion of impact	<b>4-5</b>
<b>Task (b) Evaluate</b> the implications for this venture of an increase in interest rates.			
<b>Trait</b>			
<b>Problems</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes potential problems	<b>1-2</b>
	<b>Level 2</b>	Evaluates potential problems	<b>3-5</b>
	<b>Level 3</b>	Evaluates potential problems with justification	<b>6-8</b>

<b>Mitigation</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes potential mitigation of problems	<b>1</b>
	<b>Level 2</b>	Evaluates potential mitigation of problems	<b>2-3</b>
	<b>Level 3</b>	Evaluates potential mitigation of problems with justification	<b>4</b>

SECTION 2			
<b>Task (a) Identify and evaluate</b> both the advantages and disadvantages of obtaining an E\$ loan from an Eastlandian bank to finance the system upgrade.			
<b>Trait</b>			
<b>Advantages</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes parity relationships	<b>1-3</b>
	<b>Level 2</b>	Discusses advantages of an E\$ loan for this purpose	<b>4-6</b>
	<b>Level 3</b>	Discusses advantages of an E\$ loan for this purpose with good justification	<b>7-9</b>
<b>Disadvantages</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes possible disadvantages	<b>1-2</b>
	<b>Level 2</b>	Discusses disadvantages of an E\$ loan for this purpose	<b>3-5</b>
	<b>Level 3</b>	Discusses disadvantages of an E\$ loan for this purpose with good justification	<b>6-8</b>
<b>Task (b) Identify and evaluate</b> four sources of risk associated with relying on the Eastlandian IT firm identified by the CIO to upgrade our system in accordance with its quote.			
<b>Trait</b>			
<b>1<sup>st</sup> source</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes possible risk	<b>1</b>
	<b>Level 2</b>	Evaluates the severity of the risks	<b>2-3</b>
	<b>Level 3</b>	Evaluates the severity of the risks with good justification	<b>4-5</b>
<b>2<sup>nd</sup> source</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes possible risk	<b>1</b>
	<b>Level 2</b>	Evaluates the severity of the risks	<b>2-3</b>
	<b>Level 3</b>	Evaluates the severity of the risks with good justification	<b>4</b>

<b>3<sup>rd</sup> source</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes possible risk	<b>1</b>
	<b>Level 2</b>	Evaluates the severity of the risks	<b>2-3</b>
	<b>Level 3</b>	Evaluates the severity of the risks with good justification	<b>4</b>
<b>4<sup>th</sup> source</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes possible risk	<b>1</b>
	<b>Level 2</b>	Evaluates the severity of the risks	<b>2-3</b>
	<b>Level 3</b>	Evaluates the severity of the risks with good justification	<b>4</b>



### SECTION 3

**Task (a) Evaluate** the argument that the problems with the temporary systems imply poor governance with respect to Snakwheel's digital strategy.

<b>Trait</b>			
<b>Poor governance</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes sound governance	<b>1-2</b>
	<b>Level 2</b>	Discusses whether Board demonstrated sound governance	<b>3-4</b>
	<b>Level 3</b>	Discusses whether Board demonstrated sound governance with justification	<b>5-6</b>
<b>Not poor</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes poor governance	<b>1-2</b>
	<b>Level 2</b>	Discusses whether Board demonstrated poor governance	<b>3-4</b>
	<b>Level 3</b>	Discusses whether Board demonstrated poor governance with justification	<b>5-6</b>

**Task (b) Identify** the difficulties that Snakwheel will face in establishing an effective control environment to ensure that food delivered from local independent restaurants is of good quality and recommend with reasons how the control environment might be improved.

<b>Trait</b>			
<b>Difficulties</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Defines control environment	<b>1-3</b>
	<b>Level 2</b>	Discusses difficulties of establishing control environment	<b>4-7</b>
	<b>Level 3</b>	Discusses difficulties of establishing control environment with justification	<b>8-11</b>

<b>Improvements</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes possible improvements	<b>1-3</b>
	<b>Level 2</b>	Offers a full discussion of possible improvements	<b>4-7</b>
	<b>Level 3</b>	Offers a full discussion of possible improvements with good justification	<b>8-10</b>

## Strategic Level Case Study May 2022 - August 2022

### Marking Guidance

#### Variant 2

##### About this marking scheme

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

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

SECTION 1			
<p><b>Task (a) Evaluate</b> the argument that it is unethical for us to rely on customer gratuities to ensure that our couriers earn a reasonable income.</p>			
<b>Trait</b>			
<b>1<sup>st</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>
	<b>Level 2</b>	Discusses behaviour in context of principle	<b>2-3</b>
	<b>Level 3</b>	Discusses behaviour in context of principle with justification	<b>4</b>
<b>2<sup>nd</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>
	<b>Level 2</b>	Discusses behaviour in context of principle	<b>2-3</b>
	<b>Level 3</b>	Discusses behaviour in context of principle with justification	<b>4</b>
<b>3<sup>rd</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>
	<b>Level 2</b>	Discusses behaviour in context of principle	<b>2-3</b>
	<b>Level 3</b>	Discusses behaviour in context of principle with justification	<b>4</b>
<p><b>Task (b) Identify</b> the challenges associated with conducting an analysis of our remuneration policy relating to our couriers, focussing on political, legal, and social factors, and recommending responses we could make to any challenges identified.</p>			
<b>Trait</b>			
<b>Challenges</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes political, social and legal issues	<b>1-3</b>
	<b>Level 2</b>	Identifies relevant challenges	<b>4-7</b>
	<b>Level 3</b>	Identifies relevant challenges with good justification	<b>8-11</b>

<b>Responses</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Suggests some responses	<b>1-3</b>
	<b>Level 2</b>	Offers full set of responses	<b>4-7</b>
	<b>Level 3</b>	Offers full set of responses with justification	<b>8-10</b>

SECTION 2			
<p><b>Task (a) Identify and evaluate</b> the difficulties we could face when attempting to predict how an increase in courier pay might affect Snakwheel's share price. You should ignore the concerns expressed by the institutional shareholder.</p>			
<b>Trait</b>			
<b>Identification</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes market efficiency	<b>1-3</b>
	<b>Level 2</b>	Identifies factors that will impact on share price	<b>4-6</b>
	<b>Level 3</b>	Identifies factors that will impact on share price with justification	<b>7-9</b>
<b>Evaluation</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Offers some evaluation of factors	<b>1-2</b>
	<b>Level 2</b>	Offers full evaluation of factors	<b>3-5</b>
	<b>Level 3</b>	Offers full evaluation of factors with justification	<b>6-8</b>
<p><b>Task (b) Evaluate</b> the implications of Snakwheel's shareholders expressing concern about the company's failure to comply with its core values. You should use the concerns raised by the institutional investor for illustration.</p>			
<b>Trait</b>			
<b>Internal</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies internal role of core values	<b>1-3</b>
	<b>Level 2</b>	Evaluates implications for internal role	<b>4-6</b>
	<b>Level 3</b>	Evaluates implications for internal role with justification	<b>7-9</b>
<b>External</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies external role of core values	<b>1-2</b>
	<b>Level 2</b>	Evaluates implications for external role	<b>3-5</b>
	<b>Level 3</b>	Evaluates implications for external role with justification	<b>6-8</b>



SECTION 3			
<b>Task (a) Evaluate</b> the arguments that the non-executive directors should not be commenting on courier pay because that is an operational matter.			
<b>Trait</b>			
<b>Arguments for</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies issues for encouraging comment	<b>1-3</b>
	<b>Level 2</b>	Discusses issues in favour of encouraging comment	<b>4-7</b>
	<b>Level 3</b>	Discusses issues in favour of encouraging comment with good justification	<b>8-11</b>
<b>Arguments against</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies issues for restricting comment	<b>1-3</b>
	<b>Level 2</b>	Discusses issues in favour of restricting comment	<b>4-7</b>
	<b>Level 3</b>	Discusses issues in favour of restricting comment with good justification	<b>8-10</b>
<b>Task (b) Recommend</b> with reasons the manner in which the implementation of Yu Tsai's proposal might be reflected in the social and relationship capital in our integrated report (<IR>)			
<b>Trait</b>			
<b>Recommendations</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies issues relating to report	<b>1-2</b>
	<b>Level 2</b>	Discusses issues relating to report	<b>3-4</b>
	<b>Level 3</b>	Offers full discussion of issues relating to report	<b>5-6</b>
<b>Reasons</b>	<b>Level</b>	<b>Descriptor</b>	
		No rewardable material	
	<b>Level 1</b>	Identifies justifications for recommendations	<b>1-2</b>
	<b>Level 2</b>	Discusses reasons for recommendations	<b>3-4</b>
	<b>Level 3</b>	Discusses reasons for recommendations with good justification	<b>5-6</b>

## Strategic Level Case Study May 2022 - August 2022

### Marking Guidance

#### Variant 3

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

### SECTION 1

**Task (a) Explain** and then **evaluate** the likely outcome for Snakwheel of each of the following scenarios:

- The ransomware is triggered, and our data files are encrypted.
- The ransomware is triggered, and the attacker abuses customer data.
- We pay the W\$50 million in cryptocurrency, and the ransomware is not triggered.

Trait			
<b>Files encrypted</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies broad issues	<b>1-2</b>
	<b>Level 2</b>	Discusses possible outcome	<b>3-5</b>
	<b>Level 3</b>	Discusses possible outcome assuming sound management	<b>6-7</b>
<b>Data abused</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies broad issues	<b>1-2</b>
	<b>Level 2</b>	Discusses possible outcome	<b>3-5</b>
	<b>Level 3</b>	Discusses possible outcome assuming sound management	<b>6-7</b>
<b>Ransom paid</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies broad issues	<b>1-2</b>
	<b>Level 2</b>	Discusses possible outcome	<b>3-5</b>
	<b>Level 3</b>	Discusses possible outcome assuming sound management	<b>6-7</b>

**Task (b)** In terms of responding to this threat, **explain** the relative responsibilities of the Chief Information Officer (CIO) and the Board as a whole.

Trait			
<b>Collective duty</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Summarises Board's responsibilities	<b>1-2</b>
	<b>Level 2</b>	Discusses Board's responsibilities	<b>3-4</b>
	<b>Level 3</b>	Discusses Board's responsibilities with good justification	<b>5-6</b>



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<b>CIO role</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Summarises CIO's responsibilities	<b>1-2</b>
	<b>Level 2</b>	Discusses CIO's responsibilities	<b>3-4</b>
	<b>Level 3</b>	Discusses CIO's responsibilities with good justification	<b>5-6</b>

SECTION 2			
<b>Task (a) Evaluate</b> the possibility that the steady decline in our share price could be as a result of short selling by the person making the ransomware threat.			
<b>Trait</b>			
<b>Arguments for credibility</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes market efficiency	<b>1-3</b>
	<b>Level 2</b>	Discusses consistency of decline with ransomware threat	<b>4-7</b>
	<b>Level 3</b>	Discusses consistency of decline with ransomware threat with good justification	<b>8-11</b>
<b>Arguments against</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies other interpretations	<b>1-3</b>
	<b>Level 2</b>	Discusses other causes of steady decline	<b>4-7</b>
	<b>Level 3</b>	Discusses other causes of steady decline with good justification	<b>8-10</b>
<b>Task (b) Explain</b> why the proposed contract with VDS could expose Snakwheel to currency risks, and explain how those currency exposures could be evaluated.			
<b>Trait</b>			
<b>Nature</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Defines risk as transaction or economic	<b>1</b>
	<b>Level 2</b>	Explains classification of risk	<b>2</b>
	<b>Level 3</b>	Explains classification of risk with good justification	<b>3</b>
<b>Volatility</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Offers some suggestions for evaluation	<b>1-3</b>
	<b>Level 2</b>	Discusses suggestions for evaluation	<b>4-6</b>
	<b>Level 3</b>	Discusses suggestions for evaluation with good justification	<b>7-9</b>

SECTION 3			
<b>Task (a) Evaluate</b> the ethical arguments for and against informing the Police rather than paying the ransom.			
<b>Trait</b>			
<b>1st principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>
	<b>Level 2</b>	Applies principle	<b>2-3</b>
	<b>Level 3</b>	Applies principle with justification	<b>4-5</b>
<b>2nd principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>
	<b>Level 2</b>	Applies principle	<b>2-3</b>
	<b>Level 3</b>	Applies principle with justification	<b>4</b>
<b>3rd principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>
	<b>Level 2</b>	Applies principle	<b>2-3</b>
	<b>Level 3</b>	Applies principle with justification	<b>4</b>
<b>4th principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>
	<b>Level 2</b>	Applies principle	<b>2-3</b>
	<b>Level 3</b>	Applies principle with justification	<b>4</b>
<b>Task (b) Discuss</b> our cyber security objectives of availability and confidentiality given the implications of the ransomware threat and explain how any shortcomings could be rectified.			
<b>Trait</b>			
<b>Availability</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes objective	<b>1-3</b>
	<b>Level 2</b>	Discusses impact of ransomware on understanding of objective	<b>4-6</b>



	<b>Level 3</b>	Discusses impact of ransomware on understanding of objective with justification	<b>7-9</b>
<b>Confidentiality</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes objective	<b>1-2</b>
	<b>Level 2</b>	Discusses impact of ransomware on understanding of objective	<b>3-5</b>
	<b>Level 3</b>	Discusses impact of ransomware on understanding of objective with justification	<b>6-8</b>

## Strategic Level Case Study May 2022 - August 2022

### Marking Guidance

#### Variant 4

##### About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Strategic Case Study [May 2022 – August 2022].

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, and markers are subject to extensive training, standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken to not 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)
<b>Section 1</b>			
(a)	<b>B</b>	Evaluate business ecosystem and business environment	60 %
(b)	<b>D</b>	Evaluate and mitigate risk	40 %
<b>Section 2</b>			
(a)	<b>A</b>	Develop business strategy	50 %
(b)	<b>C</b>	Recommend financing strategies	50 %
<b>Section 3</b>			
(a)	<b>D</b>	Evaluate and mitigate risk	40%
(b)	<b>E</b>	Recommend and maintain a sound control environment	60%

SECTION 1			
<p><b>Task (a) Recommend</b> with reasons how competitor analysis and customer analysis, focussed on Luvleegift, should be used to help the Board evaluate Luvleegift's proposal.</p>			
<b>Trait</b>			
<b>1<sup>st</sup> driver</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies usefulness of customer analysis	<b>1-3</b>
	<b>Level 2</b>	Recommends application of customer analysis	<b>4-7</b>
	<b>Level 3</b>	Recommends application of customer analysis with justification	<b>8-11</b>
<b>2<sup>nd</sup> driver</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies usefulness of competitor analysis	<b>1-3</b>
	<b>Level 2</b>	Recommends application of competitor analysis	<b>4-7</b>
	<b>Level 3</b>	Recommends application of competitor analysis with justification	<b>8-10</b>
<p><b>Task (b)</b> Assuming that we proceed with this venture, <b>evaluate</b> with reasons the potential outcomes for Snakwheel of each of the following scenarios</p> <ul style="list-style-type: none"> <li>Westarian interest rates increase.</li> <li>Reasnamart Supermarket significantly increases the rent charged for Luvleegift's retail units.</li> </ul>			
<b>Trait</b>			
<b>Interest</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies possible outcomes	<b>1-2</b>
	<b>Level 2</b>	Discusses likely outcome	<b>3-4</b>
	<b>Level 3</b>	Discusses likely outcome allowing for mitigation	<b>5-6</b>
<b>New competitor</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies possible outcomes	<b>1-2</b>
	<b>Level 2</b>	Discusses likely outcome	<b>3-4</b>
	<b>Level 3</b>	Discusses likely outcome allowing for mitigation	<b>5-6</b>

SECTION 2			
<b>Task (a) Evaluate</b> with reasons the commercial logic of Snakwheel acquiring Luvleegift.			
<b>Trait</b>			
<b>Advantages</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies arguments for acquiring	<b>1-3</b>
	<b>Level 2</b>	Discusses arguments for acquiring	<b>4-6</b>
	<b>Level 3</b>	Discusses arguments for acquiring with good justification	<b>7-9</b>
<b>Disadvantages</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies arguments against acquiring	<b>1-2</b>
	<b>Level 2</b>	Discusses arguments against acquiring	<b>3-5</b>
	<b>Level 3</b>	Discusses arguments against acquiring with good justification	<b>6-8</b>
<b>Task (b) Recommend</b> with reasons how the Board should interpret the increases in the share prices of Luvleegift and Snakwheel, as described by the Non-Executive Chair.			
<b>Trait</b>			
<b>Efficiency</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		Describes market efficiency	<b>1</b>
	<b>Level 1</b>	Interprets meanings of price rise	<b>2-3</b>
	<b>Level 2</b>	Interprets meanings of price rise with justification	<b>4-5</b>
	<b>Level 3</b>	<b>Descriptor</b>	<b>Marks</b>
<b>Snakwheel shares</b>	<b>Level</b>	No rewardable material	<b>0</b>
		Describes market reaction	<b>1-3</b>
	<b>Level 1</b>	Discusses interpretation of market reaction	<b>4-6</b>
	<b>Level 2</b>	Discusses interpretation of market reaction with good justification	<b>7-8</b>
	<b>Level 3</b>	<b>Descriptor</b>	<b>Marks</b>
<b>Luvleegift shares</b>	<b>Level</b>	No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies implications for decision as an issue	<b>1</b>
	<b>Level 2</b>	Discusses implications for decision	<b>2-3</b>
	<b>Level 3</b>	Discusses implications for decision with good justification	<b>4</b>

SECTION 3			
<b>Task (a) Identify and evaluate</b> the ethical and governance issues associated with any revision to our mission in response to the acquisition of Luvleegift.			
<b>Trait</b>			
<b>Ethical issues</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principles	<b>1-2</b>
	<b>Level 2</b>	Applies principles to scenario	<b>3-4</b>
	<b>Level 3</b>	Applies principles to scenario with justification	<b>5-6</b>
<b>Governance issues</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant governance issues	<b>1-2</b>
	<b>Level 2</b>	Addresses governance issues in scenario	<b>3-4</b>
	<b>Level 3</b>	Addresses governance issues in scenario with justification	<b>5-6</b>
<b>Task (b) Evaluate</b> the governance issues that could arise when Luvleegift's former CEO and Marketing Director join Snakwheel's Board and recommend with reasons how those issues should be managed.			
<b>Trait</b>			
<b>Issues</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies integration issues	<b>1-3</b>
	<b>Level 2</b>	Discusses integration issues	<b>4-7</b>
	<b>Level 3</b>	Discusses integration issues with justification	<b>8-11</b>
<b>Responses</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes responses	<b>1-3</b>
	<b>Level 2</b>	Offers valid responses	<b>4-7</b>
	<b>Level 3</b>	Offers valid responses with justification	<b>8-10</b>



## Strategic Level Case Study May 2022 - August 2022

### Marking Guidance

#### Variant 5

##### About this marking scheme

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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**

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

SECTION 1			
<p><b>Task (a) Recommend</b> with reasons the matters that you would raise in an analysis of the political, legal and social issues arising from the driving behaviour of our couriers.</p>			
<b>Trait</b>			
<b>Political</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes political element	<b>1</b>
	<b>Level 2</b>	Discusses political element	<b>2-3</b>
	<b>Level 3</b>	Discusses political element with good justification	<b>4</b>
<b>Social</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes social element	<b>1</b>
	<b>Level 2</b>	Discusses social element	<b>2-3</b>
	<b>Level 3</b>	Discusses social element with good justification	<b>4</b>
<b>Legal</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes legal element	<b>1</b>
	<b>Level 2</b>	Discusses legal element	<b>2-3</b>
	<b>Level 3</b>	Discusses legal element with good justification	<b>4</b>
<p><b>Task (b) Evaluate</b> whether it would be unethical to exclude the concerns associated with the driving behaviour of our couriers from our published statement of principal risks until we have investigated the matter and decided whether any mitigation is required.</p>			
<b>Trait</b>			
<b>1<sup>st</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes principle	<b>1-2</b>
	<b>Level 2</b>	Applies principle to scenario	<b>3-4</b>
	<b>Level 3</b>	Applies principle to scenario with justification	<b>5-6</b>
<b>2<sup>nd</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes principle	<b>1-2</b>

	<b>Level 2</b>	Applies principle to scenario	<b>3-4</b>
	<b>Level 3</b>	Applies principle to scenario with justification	<b>5</b>
<b>3<sup>rd</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes principle	<b>1-2</b>
	<b>Level 2</b>	Applies principle to scenario	<b>3-4</b>
	<b>Level 3</b>	Applies principle to scenario with justification	<b>5</b>
	<b>4<sup>th</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>
		No rewardable material	<b>0</b>
<b>Level 1</b>		Describes principle	<b>1-2</b>
<b>Level 2</b>		Applies principle to scenario	<b>3-4</b>
<b>Level 3</b>		Applies principle to scenario with justification	<b>5</b>

SECTION 2			
<b>Task (a) Recommend</b> with reasons whether Board members should accept personal liability for driving offences by couriers or whether the Board should attempt to influence the Westarian Government's proposed changes to the law.			
<b>Trait</b>			
<b>Arguments against</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies arguments against	<b>1-3</b>
	<b>Level 2</b>	Discusses arguments against	<b>4-7</b>
	<b>Level 3</b>	Discusses arguments against with justification	<b>8-11</b>
<b>Arguments for</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies arguments for	<b>1-3</b>
	<b>Level 2</b>	Discusses arguments for	<b>4-7</b>
	<b>Level 3</b>	Discusses arguments for with justification	<b>8-10</b>
<b>Task (b) Recommend and explain</b> two internal controls that would enable the Board to demonstrate that it had taken reasonable steps to ensure that couriers do not commit driving offences during working hours.			
<b>Trait</b>			
<b>1st control</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies type of control	<b>1-2</b>
	<b>Level 2</b>	Describes control in some detail	<b>3-4</b>
	<b>Level 3</b>	Describes control in some detail with explanation	<b>5-6</b>
<b>2nd control</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies type of control	<b>1-2</b>
	<b>Level 2</b>	Describes control in some detail	<b>3-4</b>
	<b>Level 3</b>	Describes control in some detail with explanation	<b>5-6</b>

SECTION 3			
<b>Task (a) Recommend</b> with reasons the manner in which the points raised by the COO should be reflected under human capital and social and relationship capital in our integrated report (<IR>).			
<b>Trait</b>			
<b>Human capital</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Defines capital	<b>1-3</b>
	<b>Level 2</b>	Discusses disclosures	<b>4-6</b>
	<b>Level 3</b>	Discusses disclosures with good justification	<b>7-9</b>
<b>Social and relationship</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Defines capital	<b>1-2</b>
	<b>Level 2</b>	Discusses disclosures	<b>3-5</b>
	<b>Level 3</b>	Discusses disclosures with good justification	<b>6-8</b>
<b>Task (b) Recommend</b> with reasons the actions the Board should take given the possibility that Snakwheel's dividend might be less than expected.			
<b>Trait</b>			
<b>Recommendation</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Discusses impact on capitalisation	<b>1-3</b>
	<b>Level 2</b>	Offers recommendation for management	<b>4-6</b>
	<b>Level 3</b>	Offers clear and logical recommendation for management	<b>7-9</b>
<b>Reasons</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant factors	<b>1-2</b>
	<b>Level 2</b>	Offers some justification for recommendation	<b>3-5</b>
	<b>Level 3</b>	Offers full and logical justification for recommendation	<b>6-8</b>



## Strategic Level Case Study May 2022 - August 2022

### Marking Guidance

#### Variant 6

##### About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Strategic Case Study [May 2022 – August 2022].

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, and markers are subject to extensive training, standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken to not 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.



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- 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)
<b>Section 1</b>			
(a)	<b>A</b>	Develop business strategy	60%
(b)	<b>D</b>	Evaluate and mitigate risk	40%
<b>Section 2</b>			
(a)	<b>C</b>	Recommend financing strategies	50%
(b)	<b>B</b>	Evaluate business ecosystem and business environment	50%
<b>Section 3</b>			
(a)	<b>D</b>	Evaluate and mitigate risk	40%
(b)	<b>E</b>	Recommend and maintain a sound control environment	60%

SECTION 1			
<b>Task (a) Evaluate</b> the stakeholder interests of the restaurant chains, other than Taystburger, that we work with and recommend with reasons how the Board should manage those interests.			
<b>Trait</b>			
<b>Identify interests</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes Mendelow	<b>1-3</b>
	<b>Level 2</b>	Identifies chains' interests	<b>4-7</b>
	<b>Level 3</b>	Identifies chains' interests with good justification	<b>8-11</b>
<b>Manage interests</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Suggests some response to issues	<b>1-3</b>
	<b>Level 2</b>	Offers sensible suggestion for managing interests	<b>4-7</b>
	<b>Level 3</b>	Offers sensible suggestion for managing interests with good justification	<b>8-10</b>
<b>Task (b) Evaluate</b> the ethical implications of Snakwheel's directors refusing to support Taystburger's bid in order to protect their careers.			
<b>Trait</b>			
<b>1<sup>st</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>
	<b>Level 2</b>	Applies principle to scenario	<b>2-3</b>
	<b>Level 3</b>	Applies principle to scenario with justification	<b>4</b>
<b>2<sup>nd</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>
	<b>Level 2</b>	Applies principle to scenario	<b>2-3</b>
	<b>Level 3</b>	Applies principle to scenario with justification	<b>4</b>
<b>3<sup>rd</sup> principle</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies relevant principle	<b>1</b>



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	<b>Level 2</b>	Applies principle to scenario	<b>2-3</b>
	<b>Level 3</b>	Applies principle to scenario with justification	<b>4</b>

SECTION 2			
<p><b>Task (a) Explain</b> how we should interpret the movements in the share prices of Snakwheel and Taystburger. Please focus on the specifics rather than a detailed explanation of the efficient market hypothesis (EMH).</p>			
<b>Trait</b>			
<b>Snakwheel</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes factors affecting target's share price	<b>1-3</b>
	<b>Level 2</b>	Explains factors affecting target's share price	<b>4-6</b>
	<b>Level 3</b>	Explains factors affecting target's share price with good justification	<b>7-9</b>
<b>Taystburger</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes factors affecting bidder's share price	<b>1-2</b>
	<b>Level 2</b>	Explains factors affecting bidder's share price	<b>3-5</b>
	<b>Level 3</b>	Explains factors affecting bidder's share price with good justification	<b>6-8</b>
<p><b>Task (b) Identify and evaluate</b> the risks to Taystburger associated with the planned loan from Southland Commercial Bank.</p>			
<b>Trait</b>			
<b>Identification</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes possible risks	<b>1-3</b>
	<b>Level 2</b>	Offers full description of possible risks	<b>4-6</b>
	<b>Level 3</b>	Offers full description of possible risks with explanation	<b>7-9</b>
<b>Evaluation</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes factors that reflect the severity of the risks	<b>1-2</b>
	<b>Level 2</b>	Evaluates the severity of the risks	<b>3-5</b>
	<b>Level 3</b>	Evaluates the severity of the risks with good justification	<b>6-8</b>

SECTION 3			
<b>Task (a) Evaluate</b> the respective roles and responsibilities of Snakwheel's executive and non-executive directors at this stage of Taystburger's acquisition of control.			
<b>Trait</b>			
<b>Executive</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes executive role	<b>1-2</b>
	<b>Level 2</b>	Evaluates executive role in scenario	<b>3-4</b>
	<b>Level 3</b>	Evaluates executive role in scenario with justification	<b>5-6</b>
<b>Non-executive</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Describes non-executive role	<b>1-2</b>
	<b>Level 2</b>	Evaluates non-executive role in scenario	<b>3-4</b>
	<b>Level 3</b>	Evaluates non-executive role in scenario with justification	<b>5-6</b>
<b>Task (b) Explain</b> why Taystburger might be keen to evaluate Snakwheel's cyber security in relation to availability and confidentiality and recommend how Snakwheel's Board might best assist Taystburger in achieving those objectives.			
<b>Trait</b>			
<b>Identify and justify</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Identifies some objectives	<b>1-3</b>
	<b>Level 2</b>	Evaluates objectives	<b>4-7</b>
	<b>Level 3</b>	Evaluates objectives with good justification	<b>8-11</b>
<b>Recommendation</b>	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	<b>0</b>
	<b>Level 1</b>	Offers some solutions	<b>1-3</b>
	<b>Level 2</b>	Recommends relevant responses	<b>4-7</b>
	<b>Level 3</b>	Recommends relevant responses with good justification	<b>8-10</b>



## Strategic level case study – Examiner’s report

### May 2022 – August 2022 exam session

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

#### General comments

The Strategic case study (SCS) examinations for May and August 2022 were based on a pre-seen scenario which described Snakwheel, a quoted company that makes home deliveries on behalf of fast-food companies. Customers can order and pay for food using restaurant websites and can opt for home delivery. The restaurants pay Snakwheel to make those deliveries.

Snakwheel has many couriers who are spread across the country. Couriers are controlled by apps on their smartphones. Snakwheel can track courier locations and availability and can pass instructions through the apps.

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

- Variant 1: Snakwheel is considering extending its service to independent local restaurants in addition to the fast-food chains that it presently serves.
- Variant 2: Snakwheel faces criticisms over allegations that it is underpaying its couriers.
- Variant 3: Snakwheel has been the victim of a cyber attack.
- Variant 4: Snakwheel is considering offering deliveries of personalised gifts in addition to fast food.
- Variant 5: There are concerns that Snakwheel’s couriers are breaking traffic laws.
- Variant 6: One of the restaurant chains intends to bid for control of Snakwheel.

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

merits. Markers were provided with specific guidance as to the characteristics of level 1, level 2 and level 3 answers for each separate requirement.

As always, the key to achieving a passing mark or better is to answer the question as set. 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.

Candidates are unlikely to gain a passing mark by writing an expanded bullet point list or short response answers. It is important to answer the tasks fully. Candidates must read the question carefully. Evaluation should usually include two sides of an argument and then a discussion of the most appropriate solution.

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 Snakwheel include:

- This is a complicated business that has to address the needs of both the corporate entities who sell fast food and the consumers who pay for home delivery.
- Snakwheel relies heavily on the couriers, all of whom operate remotely.
- The companies IT systems must interact with those of several different restaurant chains.
- Consumers can easily express dissatisfaction with the service received through social media.

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 Comments on performance

### Task 1

Task 1 introduces the scenario that Snakwheel could expand its delivery service from fast-food outlets to include delivery for local independent restaurants. Candidates were instructed to identify four of Snakwheel's intangible value drivers and evaluate how extending the delivery service would impact them.

Level 3 answers identified various intangible drivers in turn and examined both advantages and risks arising to both traditional and new elements of the service. The best answers looked at wider market forces and were able to distinguish how measures might be taken to manage risk and optimise the solutions presented. Level 2 answers tended to select good intangible drivers but failed to develop their arguments as well often only commenting on downside risk and omitting any upside opportunities presented. Level 1 responses often confused core values with intangible drivers and gave a simple resume of the pre seen elements with minimal evaluation, or similarly identified some intangible drivers but failed to give any depth of evaluation of impact from the developing service.

Candidates were asked to evaluate the impact of an increase in interest rates. Level 3 answers were able to look at the impact of interest rates across all players of the scenario; customers, suppliers, couriers and Snakwheel themselves. The best answers identified factors in each category and highlighted mostly downside, but some upside aspects as well. Level 2 answers were similar but generally less thorough in their treatment of the players or in assessing upside or other change factors in addition to general adverse risk areas. Level 1 answers tended to be rather brief and focus simply on the consumer area.

Most candidates applied their answers to the scenario and did not give generic answers in this task, particularly in the first part of the task.

### Task 2

Task 2 identifies the need for a major IT system upgrade to cope with the increased load from handling local restaurant business. A foreign consultancy has been selected to carry out the re-development, and candidates are requested to identify and evaluate both advantages and disadvantages of obtaining a loan in the foreign currency from a lender local to the consultancy to finance the work.

Level 3 responses were able to apply their answers to the particular elements of the scenario, driving at local proximity of lender to consultancy taking advantage of knowledge each may have of the other, having no currency risk at that level and likewise being in

common ground from a legal standpoint. Good answers also highlighted the need to track currency movements and take necessary actions to protect themselves from adverse movements whilst keeping stakeholders informed and confident that the overall situation was being well managed. Level 2 and level 1 answers tended to be more generic answers, failing to recognise and develop some aspects or simply not applying their knowledge to the scenario presented.

On the whole, this part of the question was less well answered.

In the second part, candidates were asked to identify and evaluate four sources of risk associated with relying on the foreign consultancy to carry out the upgrade in accordance with their quote.

Level 3 answers were able to select four good areas for discussion, highlight and define the risk, showing awareness of the potential impact and of contributing factors including means of managing those factors. Good answers applied knowledge to highlight aspects of the scenario presented which might be the source of ambiguity or misinterpretation and address those with good communications and testing or clarification of assumptions. Level 2 answers tended to simply give less depth to their answers or lack application to the scenario. Level 1 answers tended to give bullet point lists of many possible generic project risk areas without much development.

### Task 3

Task 3 identifies problems with the new venture both in the IT systems and in the restaurants ability their produce for courier delivery. Candidates are asked to evaluate whether the problems with Snakwheel's systems imply poor governance of their digital strategy.

As always, there was scope in the question and scenario presented to allow candidates to give a variety of interpretation to their answers. Level 3 answers showed awareness of the difficulties presented and gave balanced answers showing both how governance of the lack of it might be blamed or not be culpable for the problems faced. Good answers were able to identify potential sources of problems and gave width of discussion as to whether these were governance related. Level 2 answers tended to be much less balanced or less detailed in discussion of points, and level 1 often lacked any development of subject matter and tended towards very rapid and brief conclusion.

Task 3 concludes with a request to identify the difficulties that Snakwheel will face in establishing an effective control environment to ensure food delivered from local restaurants will be of good quality and to recommend with reasons how that control environment might be improved.

Level 3 answers quickly identified the wider market difficulty here. Gartner's herding cats syndrome! Dealing with 800 independent entities is a very difficult matter, and good answers identified the need for both an easily understood structure of requirements for compliance and of the need to provide assistance and guidance in meeting those compliance elements. The best answers identified

that this is departing from the core business of fast delivery, but that compliance was essential to maintain a good reputation and overcome adverse comments observed in the press. Level 2 answers had similar areas but with less development or completeness. Level 1 answers tended to be rather brief, often with undeveloped bullet point responses.

## Variant 2 Comments on performance

### Task 1

The restaurant industry has been criticised because the law permits staff wages to be less than the legal minimum that applies to other industries. This is because customers usually pay gratuities in return for service. Snakwheel takes advantage of this legal exemption.

The first subtask asked whether it is unethical for Snakwheel to rely on customer gratuities to supplement courier wages. Most candidates argued that Snakwheel's behaviour was unethical, although justifications for that argument varied. All approaches were marked on their merits, and most of the arguments that were offered were an adequate basis for a sound answer. Level 1 answers generally failed to develop their arguments or offered weak arguments in support of their position. Some answers were very descriptive and listed factors that might reduce gratuities without supporting their relevance. Level 3 responses were better developed and highlighted realistic possibilities, such as the possibility that customers might believe that their gratuities were gifts rather than a supplement to top up inadequate wages.

The second subtask asked about the analysis of Snakwheel's remuneration policy, focussing on political, legal and social factors and asked for recommendations. There were many good answers to this requirement. Level 3 answers were generally structured around the factors that the question identified as a focus, and they offered legitimate concerns that might arise. Candidates recognised that there were several external pressures that could lead to a change in the law that might close this exemption to the restaurant industry and so increase Snakwheel's labour costs. Level 1 answers were generally descriptive and often repeated facts from the unseen materials or the pre-seen, without addressing the question of why they were relevant.

### Task 2

Snakwheel continues to receive negative feedback in relation to low courier pay. One critic is a shareholder who owns 10% of the company.

The first subtask asked about the difficulties associated with attempting to predict the impact that an increase in pay might have on Snakwheel's share price. Level 1 answers tended to describe factors that might affect the share price, without making any real attempt to relate those to the share price itself. Level 3 answers took the next step and related the factors to the share price. For example, increased costs might reduce profits and so reduce the return paid to shareholders. Answers at that level correctly identified the

possibility that there could be offsetting pressures on the share price. For example, some candidates argued that the increased wage paid to couriers might encourage more customers to order fast food, and so there could be a net increase in profit.

The second subtask asked about the concerns arising from the fact that a 10% shareholder is criticising Snakwheel for failing to comply with its core values. Level 1 answers tended to be descriptive and repeated facts provided in the pre-seen and the unseen scenario. Level 3 answers were more developed and allowed for more discussion of the broader significance of failing to comply with core values rather than merely discussing the specific concerns raised by the shareholder. Level 3 candidates generally identified the need to offer stakeholders clarity concerning values that would be applied in making commercial decisions.

### **Task 3**

One of Snakwheel's non-executive directors has proposed a new system for the collection and distribution of customers' gratuities. That system would enable these gratuities to be shared more evenly and for Snakwheel to know how much couriers received in total.

The first subtask asked whether it was unacceptable for a non-executive to comment on courier pay because that is an operational matter. This was generally answered well, with level 3 answers offering a well-developed argument in response to the argument that the non-executive directors should not comment on the running of the company. Those answers tended to argue in favour of the non-executives being free to express opinions and to offer advice as they see fit. Level 1 answers tended to get bogged down in the question of whether courier pay is entirely an operational matter.

The second subtask asked for a recommendation as to how the implementation of the non-executive's proposal should be reflected in Snakwheel's integrated report. Most candidates offered a realistic response to this requirement, with marks varying in accordance to the detail provided. Level 3 answers provided a sensible recommendation with a full discussion of the reasons. Level 1 answers were simply less detailed in the justification offered for the recommendations.

## Variant 3 Comments on performance

### Task 1

Section 1 introduced candidates to an email recently received by Snakwheel's Head of IT Security, which threatened to encrypt the data files at Snakwheel's Data Centre unless a ransom of W\$50 million is paid. An email from the Chief Information Officer (CIO) to the Board confirmed this to be a credible threat and that, importantly, the files held on the back up site was equally exposed to this attack.

The first task asked candidates to evaluate the likely outcome for Snakwheel of three possible scenarios:

- The ransomware is triggered, and the data files are corrupted
- The ransomware is triggered, and the attacker abuses customer data
- Snakwheel pays the W\$50 million in cryptocurrency, and the ransomware is not triggered.

Many candidates presented level 3 or strong level 2 responses to this task, with most answers including a wide range of well applied and justified outcomes across all three scenarios. Stronger answers made sound use of the reference material to consider the impacts on key stakeholders such as couriers, customers and restaurant partners. Stronger answers also recognised the significance of the impact on customers if their data is abused and the potential legal and regulatory repercussions for Snakwheel. Better candidates also discussed within scenario 3 that the decision to pay would likely encourage further threats and demands for even larger payments, as the perpetrators of the malware attack would know that Snakwheel's Board was willing to pay in response to a threatened attack. Comments such as this demonstrated sound and logical commercial awareness and scored high marks.

Weaker level 2 answers often failed to make any clear distinction between the potential impacts of the first two scenarios. In addition, weaker answers often focussed more on the solutions to these scenarios than on evaluating the outcomes. This was not what had been asked. Level 1 responses to this task were often thin and poorly developed, describing the scenarios rather than evaluating them. Candidates are reminded to focus their answers directly on the question that has been asked. The second task in Section 1 required candidates to explain the relative responsibilities of the CIO and the Board as a whole in terms of responding to this threat.

Level 3 and strong level 2 responses to this task offered a full and well-balanced discussion of the responsibilities of both the CIO and the Board. Importantly, the best answers to this requirement were those that focussed directly on the specific response required to this ransomware threat. The strongest answers were those that appropriately recognised that the Board must accept collective responsibility, as this threat is a serious strategic matter that could threaten the viability of the company if the wrong decisions are made.



Weaker level 2 and level 1 answers presented either descriptions or explanations of the general roles and responsibilities of the CIO and the Board with no specific reference at all to this threat. Once again, candidates are reminded to read the question requirement carefully. Few marks are awarded at strategic level for application of basic syllabus knowledge.

## Task 2

Task 2 progressed the ransomware threat a further two hours, within which time an emergency board meeting has been held. The exhibit presented extracts from this meeting, which highlighted two key issues. Firstly, the Board was notified that Snakwheel's share price has been steadily falling for the past 2 weeks and that the CFO has said that it could be as a result of the person making the ransomware threat short selling its shares. Secondly, the exhibit contained information relating to paying for the services of a data security company based in Eastlandia.

The first task asked candidates to evaluate the possibility that the steady decline in Snakwheel's share price could be because of short selling by the person making the ransomware threat.

There were very few level 3 or strong level 2 responses to this question. This was largely due to fewer candidates demonstrating any real knowledge or understanding of short selling. In fact, it was very disappointing to see how few candidates had a strong grasp of short selling and its likelihood in this case. In addition, most candidates failed to read the question information carefully and missed the fact that this ransomware threat had only just become known to Snakwheel's Board, yet the share price had been falling steadily for the past two weeks. Most answers assumed that the ransomware attack had either happened or that the market was fully aware of the threat, neither of which was true. Candidates are reminded to take time to read the full extent of the information presented before commencing their answers.

As stated above, very few candidates demonstrated a strong understanding and, importantly, application of short selling in this context. Some candidates presented correct theoretical answers, but few considered the reality of its application to Snakwheel's evident falling share price. However, candidates were able to gain pass level 2 credit for their discussions on the alternative drivers of the falling share price. Many candidates did present a good range of possible reasons why Snakwheel's share price could be falling, and this meant that they were able to achieve a pass mark.

Weaker level 2 responses often presented unbalanced answers, which failed to 'evaluate' the possibility of short selling affecting Snakwheel's share price. Such answers either attempted to merely explain short selling or explain alternative reasons, but not both. Therefore, they failed to evaluate the situation. Weaker level 2 answers also were those that assumed the attack had happened and discussed market reaction to this.

Level 1 responses were often very thin, poorly applied answers, with limited application to the case context (often explaining the Efficient Market Hypothesis or Dividend Valuation Models only).

The second task asked candidates to explain why the proposed contract with the data security company based in Eastlandia could expose Snakwheel to currency risks and to explain how their potential impacts could be evaluated.

Again, there were very few level 3 or strong level 2 answers to this requirement. Most candidates did score well on explaining the potential currency risks, specifically transaction and economic risks. The better answers were those that made good use of the exhibit material to support their analysis. However, very few candidates scored well on how the impacts of the currency risks could be evaluated. The majority of answers focussed on currency risk mitigation and hedging techniques, which is not what the question asked. Therefore, most answers to this requirement scored weaker level 2 and level 1 marks, largely because they failed to answer the question that had been asked.

### Task 3

In task 3, candidates were advised that the Board had decided not to pay the ransom and instead had informed the Westarian Police Service, who had successfully arrested those suspected of attempting to extort the W\$50 million from Snakwheel. The exhibit to this task contained a newspaper report detailing the case and the arrest made. It also highlighted that one of the suspects was an ex-employee of Snakwheel.

The first task asked candidates to evaluate the ethical argument for and against informing the Police rather than paying the ransom.

Candidates who presented Level 3 and high level 2 answers offered a well justified assessment and application of a wide range of ethical principles. In particular, candidates scoring the highest marks were those that recognised that confidentiality in particular could be compromised by informing the Police. Stronger answers also discussed and applied the principles of professional behaviour, objectivity and integrity.

Low level 2 answers were often unbalanced, considering only the ethical reasons for informing the Police. Candidates are reminded that if asked to 'evaluate', then they should present a balanced answer, considering points both for and against a particular position/statement. In addition, some level 2 answers failed to focus their answer specifically on ethical arguments, instead offering general business-related points (such as reputational consequences).

Very few candidates presented level 1 answers to this task. Those that did presented brief and theoretical answers which merely listed or briefly described the ethical principles with little or no direct application to the reference material information.

The second task asked candidates to discuss the cyber security objectives of availability and confidentiality, given the implications of the ransomware threat and then explain how any shortcomings could be rectified.

This task was answered reasonably well by most candidates, with many presenting high level 2 responses. Such answers took a well-structured approach to this task, considering both the impact of the ransomware threat on both cyber security objectives and the necessary actions/controls to rectify the shortcomings in these cyber security objectives. The strongest answers were those that clearly

focused on the direct impact of the ransomware on the ability of Snakwheel to guarantee system availability and to ensure confidentiality of its data. Strong level 2 answers also presented a good range of well applied actions/controls directly applied to the shortcoming identified in their previous discussion.

## Variant 4 Comments on performance

### Task 1

Task 1 begins with news of a proposal from Luvleegift that Snakwheel should deliver their products to customers. Luvleegift sells personalised gifts which are small and could fit in Snakwheel couriers' boxes. Luvleegift would pay a commission to Snakwheel based on the value of goods for delivery. Luvleegift is not the only company offering personalised gifts, but its speed of fulfilment is much faster than its competitors.

The first subtask asked candidates to recommend with reasons how both competitor analysis and customer analysis, focussed on Luvleegift, should be used to help the Board evaluate Luvleegift's proposal.

Level 3 responses focussed on Luvleegift as requested. They showed an understanding of the benefits of the analysis, for example, the importance of knowing who Luvleegift's competitors are because there could be another company which would make a better partner for Snakwheel, and the usefulness of knowing customers' expectations with regard to service levels and how customers will assess the courier service. Level 2 answers were often less well focussed on Luvleegift. Some attempted to carry out the analysis rather than explaining how it would be helpful. Level 1 responses often identified that customer and competitor analysis would be useful but did not expand on this. Some discussed the proposal in more general terms, for example, using the suitability acceptability feasibility model, which made brief reference to customers and competitors but did not focus on the specific requirements of the question.

The second subtask asked candidates to assume that Snakwheel goes ahead with the venture and evaluate with reasons the potential outcomes for Snakwheel of each of an increase in Westarian interest rates and Reasnamart Supermarket significantly increasing the rent charged for Luvleegift's retail units.

Level 3 answers were well developed and considered several aspects of the scenarios presented. For example, recognising that an increase in interest rates would increase the cost of debt for Snakwheel, but also potentially reduce demand for Luvleegift's products, as customers would have less money available for discretionary purchases. The increase in rents could force Luvleegift to increase prices, but this could benefit Snakwheel as their commission will be based on gift value. Level 2 answers were often more narrow, often only recognising a single potential outcome and not exploring this in any detail. Level 1 responses identified some impact, but discussion was scant or confused, particularly regarding the interest rate increase.

## Task 2

In task 2, Snakwheel has been successfully delivering gifts for Luvleegift for 2 months. The Snakwheel Board has discussed bidding for control of Luvleegift, which is listed on the Westarian Stock Exchange.

The first subtask asked candidates to evaluate with reasons the commercial logic of Snakwheel acquiring Luvleegift.

Level 3 answers described both reasons for and against the acquisition, explaining the points they made and providing a thorough evaluation of the proposal. For example, there could be significant opportunities for synergy, but Snakwheel has no experience in managing businesses that operate from fixed locations. Luvleegift has grown rapidly due to the skill of its managers, but they may choose not to stay with the company post acquisition. Level 2 answers were less well developed and often only recognised the positive aspects of the acquisition, omitting any potential drawbacks and not really providing the evaluation asked for.

Level 1 responses identified some issues but did not explore their potential impact.

The second subtask asked candidates to recommend with reasons how the Board should interpret the increases in the share prices of Luvleegift and Snakwheel.

Level 3 answers discussed the prices of both Luvleegift and Snakwheel shares, in the context of the efficient market hypothesis. They recognised that takeover rumours could have caused an increase in the share prices of both companies, potentially pushing up the purchase price for Snakwheel, and also that the market's opinion may not be fully informed. Level 2 responses provided less full discussion, and many only explored the movement in Snakwheel's share price, not Luvleegift's. Level 1 answers identified some issues, but discussion was often scant or lacking in accuracy.

## Task 3

In task 3, candidates were informed that the acquisition of Luvleegift had gone ahead and, in return for supporting the bid, Luvleegift's CEO and Marketing Director will be appointed as executive directors on the Snakwheel Board.

The first subtask asked candidates to identify and evaluate the ethical and governance issues associated with any revision to our mission in response to the acquisition of Luvleegift.

Level 3 responses were often based on the code of ethics, applying the principles to the scenario with good justification. They also explored the governance implications, such as the need to measure performance against the criteria set out in the mission statement. Level 2 answers often listed the ethical principles accurately but provided less application to the scenario. Governance issues were often omitted from the discussion. Level 1 answers generally identified some ethical principles but did not apply them to the scenario and omitted the governance issues.

The second subtask asked candidates to evaluate the governance issues that could arise when both the Luvleegift directors join the Snakwheel Board and recommend with reasons how those issues should be managed.

Level 3 answers discussed a range of governance issues, such as the difficulty of integrating the new directors, duplication of roles, the lack of balance between executive and non-executive members of the Board and the potential problems of different management styles. Sensible responses to these difficulties were proposed and justified. Level 2 answers were less well developed, and many focussed on a single issue such as the balance between executives and non-executives or the cost of an additional two directors. Recommendations for responses to the problems were often scant. Level 1 responses described some issues but did not explore them in depth or detail.

## Variant 5 Comments on performance

### Task 1

There have been accusations that fast-food delivery couriers are driving recklessly in order to maximise their payments for deliveries and also gratuities paid by customers for prompt delivery.

The first subtask asked for a discussion of the political, legal and social issues arising from these accusations. Most candidates offered a relevant answer to the question, although some failed to classify the points that they were making as political, legal or social. Level 1 answers made relatively few points, while level 3 answers offered more detail and offered realistic reasons in support.

The second subtask asked whether it would be unethical to delay the inclusion of the risks arising from courier driving in the published statement of principal risks until Snakwheel has investigated the matter fully. Level 1 answers often ignored the requirement and explained whether it would be unethical to permit couriers to drive recklessly. Level 3 answers generally did as asked. Level 3 answers often used some of the principles from the CIMA Code of Ethics to provide structure for their answers. While that was not mandatory, it often did help candidates to offer a reasoned discussion.

### Task 2

A possible change in the law could make employers liable for certain driving offences committed by employees. There is a possibility that company directors could be held personally responsible for offences.

The first subtask asked whether or not Snakwheel's Board members should accept personal liability for couriers' driving offences. Answers to this requirement varied in quality, with some level 1 answers making some quite unrealistic arguments that penalising the directors would encourage couriers to drive recklessly. Level 3 answers generally offered arguments both for and against accepting responsibility. A wide range of issues was raised in such answers, and all were marked on their merits.

The second subtask asked for two internal controls that might demonstrate that reasonable steps had been taken to address courier behaviour. Most candidates offered some form of control, although the quality of the recommendations varied. Level 1 candidates often suggested controls that were clearly impractical, such as having a team of online observers monitoring the speed of each courier in real time. While the technology required by such a control certainly exists, it would be impractical. Level 3 answers generally offered realistic and practical controls.

### Task 3

New systems have been installed to discourage reckless driving. Unfortunately, that has led to the resignation of 10% of the couriers who would not or could not comply with the new requirements.

The first subtask asked whether the new systems and the loss of couriers should be reflected in Snakwheel's integrated report. Level 1 answers often failed to address the reporting issues and focussed instead on the implications for the company of the departure of the couriers. Level 3 answers considered the matters that could usefully be included in the <IR> report and explained those in reasonable depth.

The second subtask asked about the Board's response to concerns that the shareholders will be disappointed when the dividend is announced. Many level 1 answers made illogical statements that referred to the MM dividend irrelevance argument. Those answers failed to address the question because the MM argument relates to the possibility that the capital markets are indifferent to the question of whether the distributable profit is paid out as a dividend or retained as a source of finance. MM do not suggest that shareholders would be indifferent to the level of the distributable profit. Level 3 answers tended to address the requirement by making realistic suggestions as to how the Board should manage the shareholders' expectations.



## Variant 6 Comments on performance

### Task 1

Section 1 introduced candidates to the minutes of a recent board meeting, at which the non-executive Chair outlined the intention of Taystburger to take control of Snakwheel.

The first task in Section 1 asked candidates to evaluate the stakeholder interests of the restaurant chains, other than Taystburger, that Snakwheel work with and recommend with reasons how the Board should manage those interests.

Many candidates presented strong level 2 responses to this task, with many answers demonstrating a sound understanding of a wide range of potential interests of the other four restaurant chains, in this proposed acquisition of Snakwheel. These included the potential negative impact on their revenues and the threat to data security. Stronger answers recognised the probable lack of power of these restaurant chains, in terms of their ability to move to an alternative platform in a short space of time, therefore increasing their interest in this proposal. Better answers also presented a range of alternative methods of how to effectively manage the restaurant chains' interests in the short term.

Weaker level 2 answers often misinterpreted the requirement, discussing instead the interests of the restaurant chains' own stakeholders, such as their employees or their shareholders. Candidates were awarded some credit for this approach, but answers were often limited, as stakeholder management activities were limited for Snakwheel in managing these stakeholders. Level 1 responses to this task were often those candidates that discussed Snakwheel's stakeholders or just Snakwheel's shareholder interests. The question clearly asked for an evaluation of the interests of the restaurant chains' stakeholders. Once again, candidates are reminded to make sure they read the requirements carefully and only answer the question that has been asked.

The second task in Section 1 required candidates to evaluate the ethical implications of Snakwheel's directors refusing to support Taystburger's bid, in order to protect their careers.

Level 3 and strong level 2 responses to this task offered a full and well-balanced discussion of the ethical implications of the directors refusing to support the bid and, in particular, presented an assessment of the potential breaches of CIMA's ethical principles. The strongest answers were those that appropriately evaluated a range of ethical principles, including integrity, objectivity and professional behaviour and applied these clearly and directly to the case context. Weaker level 2 and level 1 answers presented answers which were either largely descriptive of the ethical principles or failed to challenge the ethicality of the directors' actions at all. Candidates are reminded that when asked a question in which the ethical principles can be applied, the best approach is to be selective and only discuss the ones which are most appropriate to the case context. Many candidates tried to apply all five ethical principles in their answer to this task, which was unnecessary.

## Task 2

Task 2 presented candidates with a newspaper article which outlined Taystburger's plans to bid for control of Snakwheel. The article identified that, following the announcement, Taystburger's share price fell and Snakwheel's share price increased. However, by the end of the day, both initial share price movements had reversed slightly.

The first task asked candidates to explain how the board should interpret the movements in the share prices of both Snakwheel and Taystburger.

Most candidates presented reasonable answers to this task, and there was evidence of sound understanding of the reasons for both positive and negative share price movements in this scenario.

Level 3 and strong level 2 answers to this task were well applied to the case context and demonstrated sound understanding of a wide range of reasons for both positive and negative share price movements for both Snakwheel and Taystburger, respectively. The better answers recognised that the drastic reduction in Taystburger's share price may not persist because the announcement merely stated that a bid would take place and that it was also very early in the acquisition process. Therefore, the share price could rise once Taystburger informed the market of its plans for the future of Snakwheel. Weaker level 2 responses mostly presented answers which were quite brief and, in most cases, failed to adequately explain the reasons for the reversal in the share price movements by the end of the day. Such answers did not adequately demonstrate a depth of understanding of the full share price movements following the announcement.

Level 1 responses were often very thin or poorly applied to the case context. These answers were limited to explaining the Efficient Market Hypothesis, which the requirement had specifically asked the candidate not to do.

The second task in Section 2 asked candidates to identify and evaluate the risks to Taystburger associated with the planned loan to finance the acquisition from Southland Commercial Bank. Candidates were given several details about the loan and its potential impact on Taystburger's gearing within the exhibit, which should have been very useful in answering this task.

Level 3 and strong level 2 answers made good use of the material presented in the exhibit and were therefore able to present and discuss a wide range of risks associated with the proposed loan, including currency risks, gearing risks and the potential upside and downside risks associated with a floating interest rate. Stronger answers also clearly explained the associated impacts of these risks on Taystburger. Weaker level 2 answers focussed mainly on currency risks, with most of their answers focusing on translation, transaction and economic risks. Therefore, limited use was made of the reference material which restricted the depth and breadth of answers presented. Some weaker answers also failed to identify the potential impacts of these risks and instead presented mitigating actions, which was not asked for. Candidates are reminded to remain focussed on the question that has been asked.

### Task 3

In Task 3, the scenario had moved on three months, and candidates were presented with the extracts of recent board minutes, in which the non-executive chair of Snakwheel informed the board that Taystburger had acquired 85% of Snakwheel's equity.

The first task asked candidates to evaluate the respective roles and responsibilities of Snakwheel's executive and non-executive directors at this stage of Taystburger's acquisition of control.

Candidates who presented Level 3 and high level 2 answers offered a well justified and balanced assessment of the role and responsibilities of the board members, particularly focussed on their importance at this stage of Taystburger's acquisition of control. In particular, the strongest answers were those that clearly recognised the distinct roles and responsibilities of the executives and the non-executives. Better answers also recognised that although the non-executive directors are likely to face redundancy, they still have a responsibility to monitor the integrity of the governance procedures and take responsibility for monitoring the interest of the 15% non-controlling interest shareholders. Low level 2 answers were often unbalanced, considering only the executive directors' roles or not specifying clearly the differences in the roles and responsibilities. Level 1 answers to this task commonly described the basic roles and responsibilities of directors with no attempt at applying these to the case context.

The second task asked candidates to explain why Taystburger might be keen to evaluate Snakwheel's cyber security in relation to availability and confidentiality and to recommend how Snakwheel's Board might best assist Taystburger in achieving those objectives.

This task was answered reasonably well by most candidates, with many presenting high level 2 responses. Such answers took a well-structured approach to this task, recognising the importance to Taystburger of evaluating the cyber security in relation to availability and confidentiality of Snakwheel's systems. Most answers at this level demonstrated a sound understanding of the importance of systems availability and confidentiality and applied this well to Taystburger. However, most candidates did not score high level 3 marks on this task because few were able to present a relevant range of recommendations on how Snakwheel's board might assist Taystburger in achieving these objectives. Most answers to this part of the question were quite brief and generic (i.e., stating that Snakwheel's board should 'communicate' with Taystburger or that CIO should hold a meeting with his counterpart). Weaker level 2 and level 1 responses often lacked sufficient application to the case context, in that they often described availability and confidentiality but not in the context of the case scenario. Level 1 answers often failed to demonstrate any real understanding of cyber security in relation to availability and confidentiality. Weaker level 2 answers also often failed to consider how Snakwheel's board should assist Taystburger in achieving the cyber security objectives.