

November 2020 and February 2021
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

November 2020/February 2021 pre-seen can be found [here](#)

Examiner's report

The November 2020/February 2021 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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November 2020 and February 2021 Strategic Case Study Examination
Pre-seen



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Introduction

Knowledge City Technology Park (KCTP) is a quoted company that owns and operates a technology park, the largest in its home country. The park is located close to the campus of a leading technological university, although the park is not directly affiliated with that university. It is also located within a one-hour drive of several other major universities.

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

KCTP is based in Advland, a developed country that has an active and well-regulated Stock Exchange. Advland's currency is the A\$. Advland requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

Technology parks

Technology parks (sometimes referred to as “science parks”) are areas established for occupation by companies that wish to conduct scientific and/or technological research and development. They generally comprise buildings that are used as science or engineering laboratories or offices used for design work or software development.

These parks usually offer buildings or offices for rent, with tenants benefitting from the flexibility of being able to move to larger premises if their needs require more space. The parks are usually designed for flexibility, occupying large plots of land, with space between buildings to ensure that tenants enjoy some privacy for their research activities. There is also scope to extend buildings if required in order to adapt them to tenants’ needs.

Technology parks are located on sites that are intended to attract significant numbers of organisations that are looking for a base from which to conduct research and development. Their locations frequently reflect a number of strategic considerations:

- Technology parks are frequently located on the outskirts of major cities, where land prices are low enough to allow for large buildings and open spaces.
- Sites are generally sufficiently close to airports, mainline railway stations and motorways to permit easy access. Tenants generally enjoy the ability to interact and engage with collaborators and with clients and so good transport links are essential.
- Many technology parks are within easy driving distance from at least one major university. That is partly because many parks were established by universities, and so were located close to their host institution. There are also major advantages associated with being able to consult with leading academic researchers in particular fields and also having a workforce in the form of local graduates.
- It has always been a major factor that technology parks should form a hub for new ideas, exploit synergies and offer the potential for collaboration.

Tenants are often start-up companies whose founders are entrepreneurs who are keen to develop an idea into a commercially viable product. Such companies are generally funded by venture capital and have sufficient resources to sustain themselves throughout the design process.

Technology parks also attract tenants who are subsidiaries of major corporations who wish to draw upon expertise from local universities or give a design team the freedom to work on specific research without the distractions associated with being based at the corporation’s main research and development centre.



The buildings in technology parks are generally intended for sole occupancy by individual tenants. They are generally large spaces that are designed to be equipped and adapted to meet a variety of different needs. For example, an engineering laboratory might require sufficient space to construct a full-sized prototype vehicle. Apart from size, the building might also have to be strong enough to permit the installation and safe operation of a crane or other heavy equipment.



Most tenants require a steady and reliable electrical supply that does not have the usual fluctuations in current and voltage that affect most electrical supplies. Some tenants use sensitive electronic equipment that would be damaged by any electrical “spikes”, while others operate equipment that draws a significant electrical current, far in excess of that available from standard electricity supplies. Technology parks must invest heavily in infrastructure, ensuring that the technology park as a whole has

sufficient electrical power and also distributing it safely across the campus. This requires more than just installing electrical cables. It is also necessary to fit and maintain equipment that prevents changes to voltage and available current when a large item of equipment located in the technology park is switched on or off.

Apart from electricity, technology parks have to take account of several key requirements in order to meet their tenants’ needs:

- High-speed data links are often crucial because data may be collected from remote sources. It may also be necessary to share large files with collaborators or to organise video conferencing, accompanied by high-definition video, in order to ensure that participants can watch prototypes in operation.
- Site security is important because tenants may be working on the development of new products using designs that are commercially sensitive. In some cases, there could be wider security issues. For example, some tenants may be working on government contracts that involve concerns about national security. Tenants generally require there to be security patrols and closed-circuit television monitoring of the campus, with the security office monitoring building alarms and calling the emergency services in the event of an alarm sounding.
- Some tenants require administrative and other business service support, so that they can focus their attention on research and development work. For example, many technology parks have centralised telephone answering services, with operators who pick up calls to tenants’ numbers, giving the tenants’ business names and transferring calls or taking messages as necessary.
- Tenants are also generally keen to ensure that their staff find it convenient to work on the site. One major issue is the availability of sufficient car parking to ensure that staff can park easily, regardless of the time of day. It is also helpful if there are facilities to secure bicycles and frequent bus services from the technology park to local public transport hubs and airports.

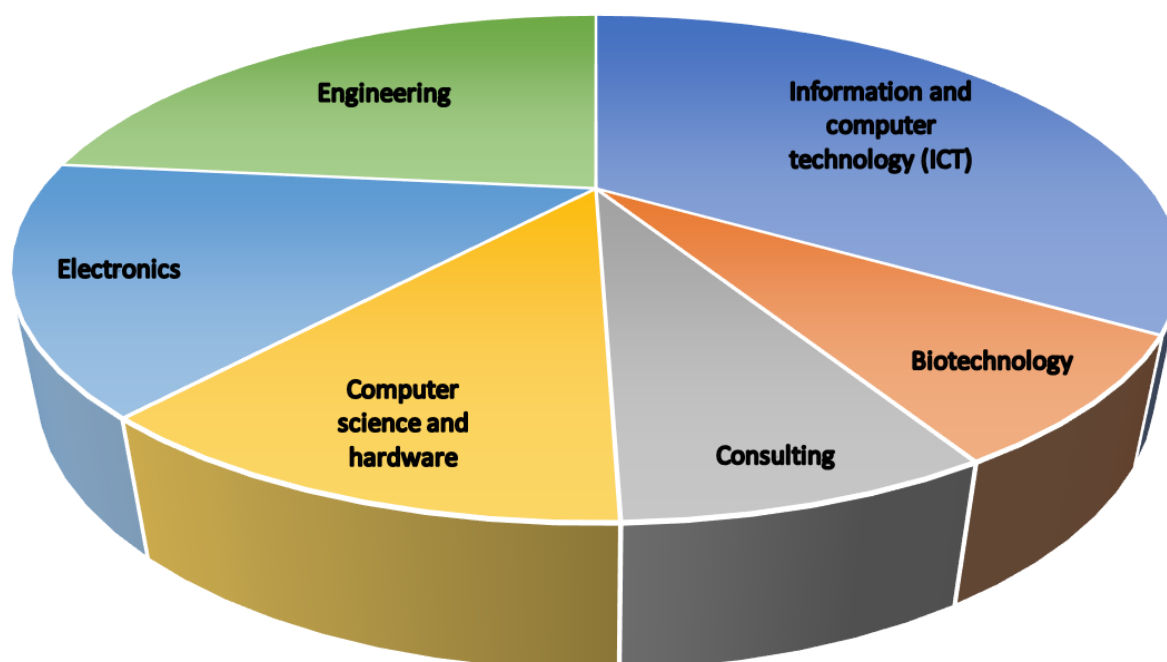


Many technology parks offer small and medium-sized spaces that can be adapted and configured to meet the needs of tenants who do not require sole occupancy of laboratory buildings. These smaller spaces are popular with companies that create designs using software, testing the results using computer simulation.

Many technology parks create smaller workspaces by subdividing one or more of their buildings into separate units, offering a convenient location and good physical security. These spaces are often popular with start-ups, who can design products using computer-aided design. If necessary, they can use secure electronic communications to send their files to fabricators who can build their prototypes using 3D printing technology.

Technology parks generally attract a wide range of tenants, with different areas of interest:

Technology parks - tenants' areas of interest



(Note: 'consulting' refers to tenants who are located on the technology park in order to sell services to third parties rather than conduct their own research and development. They do not necessarily aim to work for their fellow tenants, although the large number of nearby businesses with an interest in research may create a useful local market.)



Some tenants' activities can go beyond research and development, for example limited manufacture and sale of parts and components is possible. An electronics company might have a "clean room" in its building that is used to manufacture limited quantities of products for sale to third parties. The rents charged by technology parks mean that it is not cost-effective to conduct mass-manufacturing there, but the infrastructure and availability

of expertise might encourage the tenants to offer fabrication and prototyping services.

Advland has 27 technology parks, spread across the country. These vary in size, some being little more than large converted office blocks that offer small- to medium-sized spaces for software development and small laboratories and workshops. Others are built on large campus spaces, with several major units for rent and the infrastructure required to support a range of large-scale activities.

Prospective tenants are often attracted by the possibility of collaborating with other tenants based on the technology park. Such collaboration can take many different forms, including the direct provision of paid services. There can also be natural synergies, such as a tenant who is engaged in the development of batteries for electric vehicles hoping to collaborate with other tenants who are engaged in related areas of vehicle design. Even when commercial confidence makes it difficult to collaborate directly, tenants often benefit from being associated with a location that is attractive to potentially interested parties such as corporate designers, job applicants or other professional contacts.

Knowledge City Technology Park

Knowledge City Technology Park (KCTP) was founded in 1986 by Advland's Capital City University. KCTP owns a site comprising 24 hectares of land and 18 buildings, with a total of 320,000 square metres of floor space, making KCTP the largest technology park in Advland.

Capital City University floated KCTP in 1999. The university retains a 20% shareholding in the company, with the remainder of the shares being freely traded on the Advland Stock Exchange. The flotation was motivated by the university's desire to raise funds and also to free KCTP to provide a sustainable commercial boost to the country's technology sector. Since the flotation, KCTP has significantly improved its infrastructure, enabling it to achieve a very high occupancy rate. The university has developed good links to many of KCTP's tenants, which has led to commercial funding of university research projects. A large number of work experience opportunities for undergraduate and postgraduate students have arisen as well as employment opportunities for graduates.

KCTP's campus is located within a 30-minute drive from Capital City University. It has its own subsidised bus service, linking KCTP's campus to the university and Capital City's business district.

The campus is 3 miles from Capital City International Airport, which is a major hub offering global connections and enabling KCTP's tenants to maintain close contact with business contacts and colleagues from around the world. KCTP has a minibus and driver that can be booked to take tenants and their visitors to and from the airport.

There are several large hotels within a short distance of KCTP. Tenants use these to accommodate visitors, including colleagues and potential clients. They also provide convenient venues for meetings and conferences, some of which are hosted by KCTP. Several universities host academic conferences at those hotels, partly in order to attract participants from KCTP's tenants and so develop mutually beneficial contacts.

KCTP still has a close working relationship with Capital City University. The university has an international reputation for excellence in a number of key areas including biotechnology and engineering materials. Some of KCTP's tenants decided to base themselves there in order to develop contact with leading academics at Capital City University. Others were previously academics there themselves but left in order to conduct more applied research with a clear commercial direction.

There are several other universities within a comfortable travelling distance of KCTP. KCTP's Board is keen to develop as many potentially useful academic links as possible. There have been many successful collaborations between KCTP tenants and universities other than Capital City University.

KCTP's campus

The campus comprises 18 buildings set in pleasant landscaped grounds. These vary in size from 17,000 to 18,500 square metres.

KCTP maintains the grounds to a high standard and insists that tenants keep the exteriors of their buildings and their surrounding areas clean and tidy.

Fifteen of the buildings on campus are large units intended for sole occupancy for rental to individual tenants. Each building has all the necessary cabling and connections to ensure that utilities such as electricity, data, telephone and water can be made available in any part of the building. Tenants are free to adapt and change the interior of the building as they wish. For example, some tenants install interior partition walls to provide separate spaces. Most install specialised equipment, ranging from special air filters to small furnaces.



Tenants are required to restore their buildings to their original condition at the end of their tenancy. They must also inform KCTP's Health and Safety Department of all equipment that will be used and permit regular safety inspections to be carried out. KCTP reserves the right to refuse installations and modifications. For example, one tenant recently installed an industrial laser for research purposes, but was initially refused permission to proceed with that until the workspace in

which it was to be located was fitted with safety locks to prevent any unauthorised entry while the laser is in operation. Another tenant wished to replace a furnace used to create alloys with a larger model but was refused because the additional electrical current required by the larger furnace would have caused "brownouts" (a drop in voltage) in the electricity supply to other buildings, which could have massively inconvenienced other tenants.

Two of KCTP's buildings have been subdivided into smaller workspaces and are rented out to entities whose needs are more modest than those requiring sole occupancy. Many of those smaller entities are at an early stage of development and may not yet have secured funding. Others are engaged in activities that do not require a large space or heavy equipment but wish to be associated with KCTP for reputational reasons or in order to make contacts.

One building is occupied by KCTP itself. It is located beside the visitors' entrance and car park. It has a reception desk that is staffed on a 24-hour basis and a telephone switchboard that enables operators to answer calls on behalf of tenants. The building has offices and workspaces for administrative and facilities staff, including a sophisticated security operations room that monitors the grounds remotely and communicates with security patrols. The building has executive offices and a boardroom that can be hired by tenants when it is not being used by KCTP.

KCTP's campus was purpose built, with excellent connections to utilities such as water, electricity and data services. These could, in principle, meet the needs of a small town and so there is ample provision for tenants' foreseeable needs. There is also scope for utilities to be upgraded if the need arises.

KCTP offers access to a campus computer network facility that is linked to a secure server with off-site hot back-up. Tenants are free to make their own arrangements for data storage and communication, but many appreciate the fact that KCTP can provide this service, albeit at a fee.

Staffing

KCTP employs 970 staff directly in the operation and management of the campus. They are engaged in a variety of roles, including:

- Health and Safety (24-hour)
- Security (24-hour)
- Maintenance (including 24-hour emergency cover)
- Information Technology (24-hour)
- Reception and Telephony (24-hour)
- Administration and Legal

- Marketing
- Internal Audit
- Landscaping and Gardening
- KCTP Business Services.

KCTP Business Services offers a flexible range of services to tenants, many of which are start-ups that are managed by technologists who have little interest in the administrative aspects of running their businesses. Tenants can, if they wish to, pay to subcontract aspects of their business including bookkeeping, preparing tax returns and human resource management.

Given the confidential nature of the work undertaken by many tenants, KCTP has to undertake detailed background checks on all of its staff. These include insisting on extensive pre-employment checks, including references from previous employers and full employment histories, supported by documentary evidence. The security department has a section that conducts detailed background checks on new staff and also staff who are being promoted into particularly sensitive roles.

KCTP's security department also employs two specialists in cybersecurity to oversee and manage the security issues associated with managing the company's IT systems.

Tenancy agreements

New tenants are vetted carefully, including rigorous financial checks. Rental agreements are generally based on 12-month contracts that can be rolled forward indefinitely from year to year, with tenants being required to indicate their intentions six months before their present agreements end. Tenants are required to make a substantial cash deposit before taking possession of their building or workspace, which is returned at the conclusion of the tenancy, after settlement of all receivables and the restoration of the building or workspace to its original condition.

Most tenants remain at KCTP for at least 2 years, although some tenants have occupied buildings for more than 10 years.

KCTP's Marketing department exists to maintain the company's profile amongst potential tenants. The department also liaises with existing tenants to ensure that their needs are known and understood in the hope that they will renew their contracts. The marketing department comprises an experienced manager and an administrative assistant.

KCTP's vision, mission and values

Vision

To contribute to innovation in business.

Mission

KCTP's mission is to offer an open, strategic platform for the development of innovation, technology and enterprise.

Values

KCTP's values are:

1. **Innovation** – we are always finding new ways to help businesses to grow.
2. **Community** – we seek to forge links between business and academic institutions.
3. **Integrity** – we apply a high level of professional ethics to everything that we do.
4. **Flexibility** – we work with stakeholders to create workable solutions.
5. **Responsiveness** – we aim to meet our stakeholders' needs.

KCTP's Board of Directors

Jules Malano, Non-Executive Chair Jules is a retired finance director. Previously, she worked for one of Advland's longest-established technology parks until she retired in 2018.

Jules has held senior positions in a number of technology companies during her successful career.

Jules was appointed to KCTP's Board in 2019.

Sanjay Gupta, Chief Executive Officer

Sanjay was the Director of Innovation in a major quoted technology company before joining KCTP. He has a reputation for providing excellent strategic leadership. Sanjay had previously held senior roles in a succession of three successful IT companies.

He joined KCTP's Board in 2017.

Bill McDougall, Director of Operations

Bill, is an IT specialist. In recent years he developed an interest in cyber security and was a senior IT manager in KCPT for 5 years before becoming a director. He worked for 14 years in IT companies in Advland before joining KCPT.

Bill was appointed Director of Operations in 2017.

Shereen Peros, Finance Director

Shereen has held senior finance positions in major engineering companies. She enjoys working in a fast-moving, stimulating environment and was delighted to join KCTP's Board in 2018.

Chloe Reynolds, Human Resources Director

Chloe trained as a human resources manager in a large production company before joining KCTP in 2015. She was promoted to her current role in 2019.

Jody Peret, Independent Non-Executive Director

Jody is a qualified engineer who was a director of one of Advland's largest engineering companies.

Jody was appointed to KCTP's Board in 2019.

Rick Adamson, Independent Non-Executive Director

Rick is a qualified lawyer. He specialises in commercial property law and ran a very successful legal company in Advland. He retired in 2014 and was appointed to KCTP's Board in 2016.

Rio Chang, Independent Non-Executive Director

Rio was a senior manager in a public relations company. He is interested in business start-ups and had experience working in a business incubator at a university. Rio was appointed to KCTP's Board in 2018.

Professor Helga Kress, Non-Executive Director

Helga had a successful academic career at the Capital City University. She was Dean of the university's Engineering Faculty when she retired in 2017. Helga sits on KCTP's Board as a non-executive director, representing the interests of the university. Her directorship is the only link between the university and KCTP's management, although the university holds 20% of KCTP's equity.

Board structure

Sanjay Gupta Chief Executive Officer		
Bill McDougall Director of Operations	Shereen Peros Finance Director	Chloe Reynolds Human Resources Director
<ul style="list-style-type: none"> Information Technology Maintenance Health and Safety Landscaping and Gardening Marketing 	<ul style="list-style-type: none"> Accounting and Finance Administration and Legal KCTP Business Services 	<ul style="list-style-type: none"> Staff recruitment, training and retention

Board committees

	Board committees			
	Audit	Risk	Remuneration	Nomination
Jules Malano Non-Executive Chair	◆	◆	◆	◆
Jody Peret Independent Non-Executive Director		◆		◆
Rick Adamson Independent Non-Executive Director	◆	◆		
Rio Chang Independent Non-Executive Director	◆		◆	
Professor Helga Kress Non-Executive Director			◆	◆

KCTP's principal risks

Risk theme	Risk impact	Risk mitigation
Security	Technology parks may be targets for theft and vandalism	Strong security presence 24 hours a day.
	Technology parks may be a target for industrial espionage, with tenants' competitors wishing to know what products are being developed.	KCTP vets all staff carefully to ensure they are not likely to pose security risks. KCTP has comprehensive insurance cover for both injury and property damage.
Tenant turnover	Many tenants are new companies. There is a risk that these companies will not survive long.	KCTP aims to have a mixture of tenants to ensure the turnover of tenants is manageable and cash flow is not affected too badly by voids.
Health and Safety	Some of the processes and practices used by tenants may be hazardous.	All tenants must inform KCTP about their activities so that suitable safety procedures can be put in place.
IT	KCTP's operations are heavily dependent upon the availability of its servers.	The servers are backed up to a remote hot back-up site that can take over in the event of the main site becoming unavailable.
Cyber security	KCTP's tenants file confidential information concerning their new products and processes.	KCTP ensures that its servers are secure. KCTP has strong cyber security designed to prevent hackers. All staff are vetted before they are granted access to the IT system in order to prevent attempts at accessing tenants' data.

Extracts from KCTP's financial statements

KCTP

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

	2019	2018
	A\$ million	A\$ million
Revenue	479	449
Cost of property management, technology support centres and communal facilities	(111)	(98)
Marketing expenses	(14)	(12)
Administration expenses	(115)	(114)
Operating profit	239	225
Financial expense	(50)	(42)
Profit before tax	189	183
Tax	(43)	(42)
Profit for the year	146	141

KCTP

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

	Share capital	Revaluation reserve	Retained earnings	Total
	A\$ million	A\$ million	A\$ million	A\$ million
Opening balance	5,000	320	241	5,561
Gain on revaluation		300		300
Profit for year			146	146
Dividend			(74)	(74)
Closing balance	5,000	620	313	5,933

KCTP**Consolidated statement of financial position****as at 31 December**

	2019	2018
	A\$ million	A\$ million
Non-current assets		
Property, plant and equipment	6,600	6,140
Intangible assets	330	330
	<u>6,930</u>	<u>6,470</u>
Current assets		
Accounts receivable, prepayments and other receivables	67	54
Cash and cash equivalents	264	244
	<u>331</u>	<u>298</u>
Total assets	<u><u>7,261</u></u>	<u><u>6,768</u></u>
Equity		
Share capital	5,000	5,000
Revaluation reserve	620	320
Retained earnings	313	241
	<u>5,933</u>	<u>5,561</u>
Non-current liabilities		
Loans	960	940
	<u>960</u>	<u>940</u>
Current liabilities		
Trade payables and tenants' deposits	327	228
Current tax	41	39
	<u>368</u>	<u>267</u>
Total equity and liabilities	<u><u>7,261</u></u>	<u><u>6,768</u></u>

Major competitor

KCTP is the largest technology park in Advland. It has several major competitors, including Sympark, which has a campus of similar size, located approximately 15 miles from KCTP.

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

	2019	2018
	A\$	A\$
	million	million
Revenue	417	370
Cost of property management, technology support centres and communal facilities	(101)	(88)
Marketing expenses	(12)	(10)
Administration expenses	(107)	(104)
Operating profit	197	168
Financial expense	(44)	(38)
Profit before tax	153	130
Tax	(35)	(30)
Profit for the year	118	100

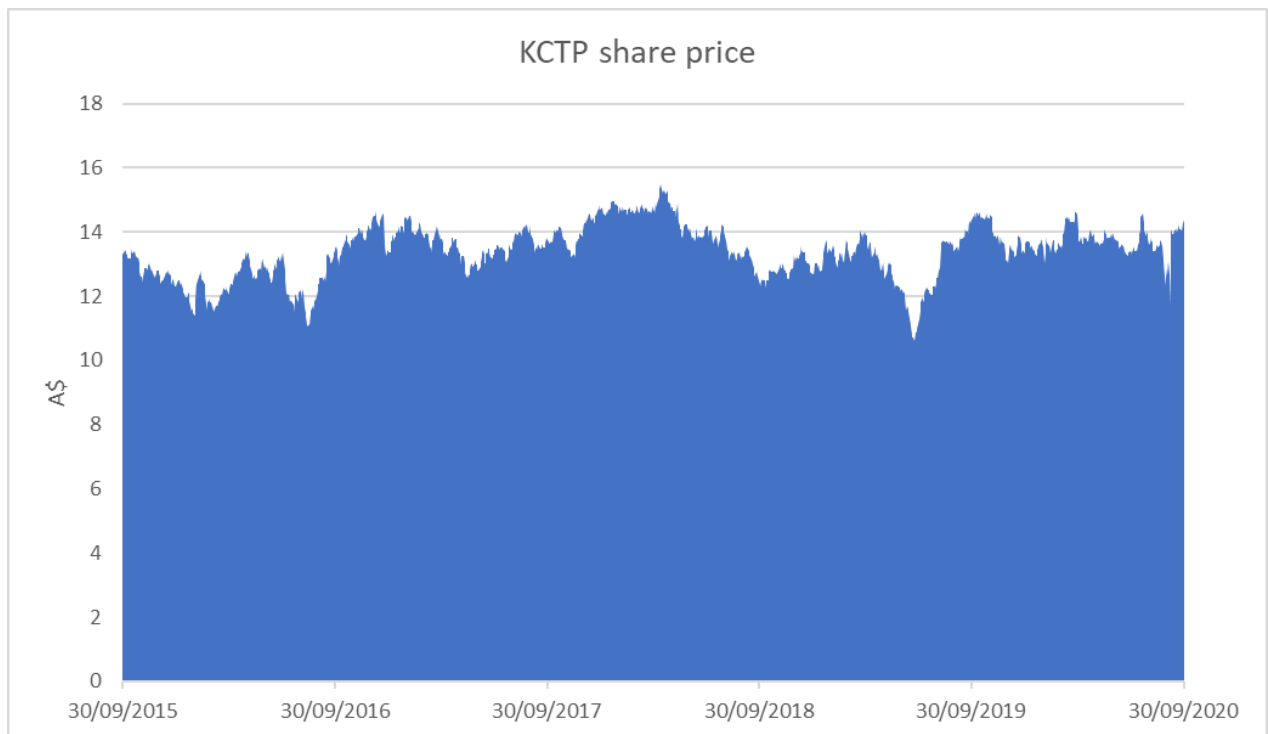
Sympark**Consolidated statement of changes in equity
for the year ended 31 December 2019**

	Share capital	Revaluation reserve	Retained earnings	Total
	A\$ million	A\$ million	A\$ million	A\$ million
Opening balance	4,500	280	175	4,955
Gain on revaluation		120		120
Profit for year			118	118
Dividend			(5)	(5)
Closing balance	4,500	400	288	5,188

Sypark**Consolidated statement of financial position****as at 31 December**

	2019	2018
	A\$ million	A\$ million
Non-current assets		
Property, plant and equipment	5,900	5,640
Intangible assets	250	250
	<u>6,150</u>	<u>5,890</u>
Current assets		
Accounts receivable, prepayments, deposits and other receivables	62	51
Cash and cash equivalents	217	198
	<u>279</u>	<u>249</u>
Total assets	<u><u>6,429</u></u>	<u><u>6,139</u></u>
Equity		
Share capital	4,500	4,500
Revaluation reserve	400	280
Retained earnings	288	175
	<u>5,188</u>	<u>4,955</u>
Non-current liabilities		
Loans	900	880
	<u>900</u>	<u>880</u>
Current liabilities		
Trade payables and tenants' deposits	305	272
Current tax	36	32
	<u>341</u>	<u>304</u>
Total equity and liabilities	<u><u>6,429</u></u>	<u><u>6,139</u></u>

KCTP's share price history



KCTP's beta is 0.9.

News stories

Advland Telegraph

Universities focus on “knowledge exchange”



Universities used to be evaluated on the strength of their teaching and research, but both are becoming increasingly overshadowed by the need to demonstrate relevance to the so-called “real world”. That has created the concept of knowledge exchange, which involves transferring the results from research studies to business and other areas of activity.

University promotion boards are no longer content to count the number of learned papers written by an applicant for a coveted senior lectureship or professorship. At least some of the findings of those papers must have a demonstrable application to the real world, perhaps through the provision of consultancy work or the sale of a patent to a commercial organisation.

Most major universities have established knowledge exchange or knowledge transfer partnership teams, whose role is to approach potential external contacts in order to pitch ways in which a mutually advantageous relationship can be developed.

Advland Daily News

Top scientists can't build their own inventions



Movies often portray research as a glamorous process, with scientists toiling in hi-tech laboratories packed with sophisticated equipment. They always succeed in making major breakthroughs, just in time to save the world from a major disaster. Those same movies rarely portray the process of taking a research finding from the laboratory to a

real-world product. Many leading scientists are happy to admit that they would not know how to operate the equipment in the factories that they supply with inventions.

For example, scientists involved in DNA sequencing might spend months in a laboratory working on the science associated with developing a gene that will improve, say, yields from grain crops. The difficult science then gives way to a process that is closer to cooking than to scientific research and is more suited to a factory setting than a laboratory.

It is a similar story with other areas of technology. In real life, the white-coated engineers in spy thrillers would probably have to email their designs to a local electronics factory to have them assembled before the hero could be issued with the latest technological marvel.

IT Monthly

Simulation takes off



IT professionals have noted a marked increase in demand for programmers who can help in the development of computer simulations. This is becoming an increasingly lucrative field.

Previously, engineers would build scale models of their designs and would test them to destruction in an engineering laboratory. For example, an aeroplane wing would be

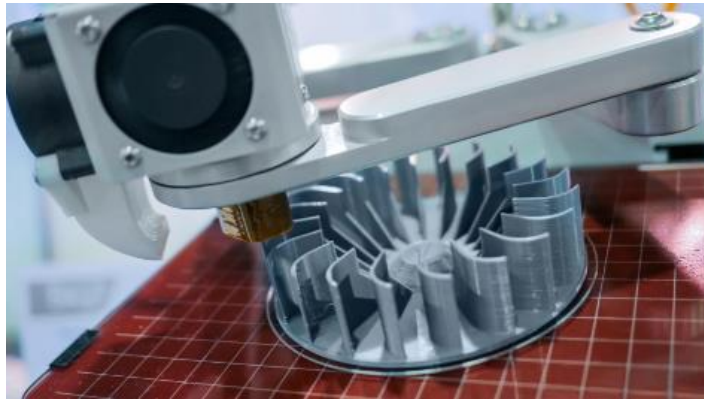
mocked up and its efficiency tested in a wind tunnel. If the wing passed those tests, it would then be twisted and bent to see whether it could stand up to the stresses and strains of flight. Eventually, a full-scale wing would be tested on a real aeroplane in flight.

Now, the same tests are often conducted using a virtual model. The design is developed using software and then tested by running the computer model through many different simulations that mimic the tests that would have been conducted in a laboratory setting. That has the advantage of permitting the design to be adapted and retested very quickly and at little additional cost.

The design team can then be satisfied that everything will work properly by the time the final design is ready for testing in the physical world.

IT Monthly

3D printers take off (literally)



Companies are making increasing use of 3D printing technology to assist in the design and prototyping of their products. Design engineers make heavy use of industry-standard computer assisted design (CAD) packages to draw individual parts that can be assembled into a finished product. In the past, the

drawings produced on CAD packages were generally passed on to a fabricator in order to create a physical object based on the image on the screen. The fabrication process is becoming increasingly dependent upon 3D printing, which uses machinery to create an exact physical representation of the design.

When it was first introduced, 3D printing was of limited use because the early machines could build only small items out of relatively soft plastics. Modern machines can create relatively large objects and they can use a growing range of materials, including carbon fibre and even metal.

The versatility of 3D printing is also changing the way some items are manufactured. For example, aircraft manufacturers might not hold inventories of many spare parts provided they are suitable for 3D printing. If an aircraft has, say, a broken switch then the CAD files for the parts can be sent to a suitable printer that could be on the other side of the world. The part can then be created and taken to the airport in order to get the plane back in the air.

Advland Daily News

There's nothing as practical as a good theory



Digital computers work on the basis that data can be stored and processed using switches that are “binary”. In other words, they are either “on” or “off”. That works well in most computer applications, such as banks storing their customers’ records, because they are intended to apply logical and consistent rules where the correct outcome is

not in doubt. Computers do, however, struggle with tasks where the models are uncertain and thus difficult to simulate, such as weather forecasting.

Quantum mechanics is a field of science that draws on the complex phenomena that occur at a molecular level. Those complexities make it possible to model uncertainties that cannot be addressed using conventional means. For example, a digital computer can decode encrypted data by working methodically through the various possible keys to the code, until the correct key is discovered by so-called brute force. However, with high levels of encryption it might take even the fastest computers hundreds of years to try every key until the code is broken. In contrast, a quantum computer, programmed with the logic of quantum mechanics, would try every possible key at once and open the file instantly.

Quantum mechanics, and the quantum computers that will use their logic, will support the development of many new products, including more effective pharmaceuticals and stronger and lighter materials.

Advland Telegraph

How green is the cloud?



Researchers at Capital City University have discovered that many computer users underestimate the electrical power required by cloud-based computing services. Cloud computing is a broad term used to describe the storage, and sometimes the processing, of data at a remote site. Cloud services can be public, meaning that they are accessed over the internet, or private, meaning that they are

hosted behind a firewall that restricts access to specific users, such as employees who are accessing a corporate cloud.

The researchers concluded that the data centres that are used to host cloud-based services are generally far more efficient than running individual computers in homes and offices. However, the data has to be transported between the data centre and the user's device and that can consume a considerable amount of energy. In some cases, data transportation uses more electricity than data processing and storage.

The researchers do not argue that the cloud is inefficient. But the energy savings associated with using cloud-based services are often overstated. Disclosures of corporate carbon footprints may also exclude the impact of energy consumed by third-party cloud service providers working on the corporation's behalf.



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) 50% (b) 50%
2	60	1	2	(a) 60% (b) 40%
3	60	1	3	(a) 30% (b) 40% (c) 30%

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

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

Reference Material

Pre-seen

You have received the following email:

From: Shereen Peros, Finance Director
To: Senior Finance Manager
Subject: Occupancy rates

Hello

I have attached an occupancy report that has been circulated to all Board members as one of the documents for discussion at the forthcoming Board meeting. It makes worrying reading.

I have been talking to other members of the Board and two possible solutions are being suggested.

Some Board members believe that KCTP should follow a digital strategy and reconfigure itself to attract tenants who provide electronic services, including advanced computer-assisted design and simulation. That would require the conversion of the vacant buildings and workspaces to attract tenants who require the infrastructure to support the latest and most powerful computer hardware and enable secure and rapid data communications.

Other Board members believe that KCTP should no longer restrict itself to seeking tenants who are primarily focussed on research and development projects. Our buildings could, for example, be adapted for a variety of more generic uses, including small factory units, call centres or vehicle repair workshops.

Before the meeting, I need you to draft a paper for me that covers the following:

Firstly, evaluate the strengths and weaknesses of the proposal that KCTP should pursue a digital strategy, including support for advanced digital simulation.

[sub-task (a) = 50%]

Secondly, evaluate the suitability of the proposal to allow the units to be used by any type of business.

[sub-task (b) = 50%]

Thanks

Shereen Peros
Finance Director
KCTP

The attachment to this email can be viewed by clicking the Reference Material button above.

Occupancy report

Sole occupancy (15 buildings, 14 tenants, of whom two intend to vacate)

Occupied – tenants have indicated intention to renew	7
Occupied – tenants are not yet required to indicate whether they wish to renew	5
Occupied – but tenants have stated that they intend to vacate	2
Vacant	1
Total	15

Offices/workspaces in shared buildings (20 spaces, 18 tenants, of whom three intend to vacate)

Occupied – tenants have indicated intention to renew	6
Occupied – tenants are not yet required to indicate whether they wish to renew	9
Occupied – but tenants have stated that they intend to vacate	3
Vacant	2
Total	20

Comments from Marketing Manager










All tenants have 12-month contracts that can be rolled forward indefinitely. Tenants are required to indicate whether they intend to either renew or quit at the 6-month point in each contract. As indicated above, we have a number of current and expected vacancies.











We have always had a moderate turnover of tenants, but there was always sufficient demand for space at KCTP to fill vacancies almost immediately. Unfortunately, this has changed because:



- Many technology companies are switching away from the fabrication of large-scale prototypes and are using computer simulations instead.
- Design teams are increasingly communicating by electronic means and so there is less need for face-to-face interaction.

 Reference Material Pre-seen

Draft your response to Shereen's requests in the box below:

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

Paragraph          

 Reference Material Pre-seen

A week later, Shereen Peros stops by your workspace and hands you a document.

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

I need your help with two matters:

Firstly, identify and explain the potential implications for the share price and governance of KCTP if Capital City University sells its 20% stake in the company.

[sub-task (a) = 60%]

Secondly, explain whether it was appropriate for Professor Kress to present the University's position and interests during a KCTP Board meeting."

[sub-task (b) = 40%]



The document from Shereen can be viewed by clicking the Reference Material button above.

Board minute extract: vacant buildings and workspaces










Bill McDougall, Director of Operations, proposed that KCTP should stop restricting itself to accommodating and supporting technology companies. He argued that the adaptable nature of the buildings would make them ideally suited to a wide variety of industrial uses.










Professor Helga Kress, Non-Executive Director, spoke against the proposal. She reminded the Board that KCTP's Vision has always been "to contribute to innovation in business" and that its Mission "is to offer an open, strategic platform for the development of innovation, technology and enterprise". Those principles were established when KCTP was founded by Capital City University.



Professor Kress further reminded the Board that she represents Capital City University, which owns 20% of KCTP's equity. She warned that she would inform the University of any decision to seek tenants from outside the technology sector and would recommend that the University should sell its shares if Bill McDougall's proposal was implemented.

 Reference Material Pre-seen

Write your reply to Shereen's requests in the box below:

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

Paragraph ▾  ▾        

 Reference Material Pre-seen

Two months later, you receive the following email:

From: Shereen Peros, Finance Director

To: Senior Finance Manager

Subject: Occupancy rates

Hello

I have forwarded an email that I received from Bill McDougall, whose responsibilities include marketing.

While Bill is clearly happy, I have some reservations. Please advise me on the matters that I have listed below:

Firstly, explain why Bill's agreement with Capital City University will create reputational risks for KCTP.

[sub-task (a) = 30%]

Secondly, explain how this arrangement should be reported under the Social and Relationship Capital heading of our Integrated Report.

[sub-task (b) = 40%]

Thirdly, Bill does not appear to have requested the usual Health and Safety check on the equipment to be installed by these new tenants. Explain whether it would be appropriate for the Board to ask Internal Audit to investigate why Bill did not insist on Health and Safety checks on these three tenants.

[sub-task (c) = 30%]

Thanks

Shereen Peros

Finance Director

KCTP

The email forwarded by Shereen can be viewed by clicking the Reference Material button above.

From: Bill McDougall, Director of Operations
To: Shereen Peros, Finance Director, Senior Finance Manager
Subject: Vacancies filled

Hi Shereen

I am pleased to inform you that Capital City University has agreed to create three start-up companies to occupy our vacant buildings and workspaces.

The University asked its academic staff to identify projects and then bid for funding. The three projects that were judged to have the greatest chance of commercial success were chosen to become start-up companies. They were each given sufficient funding to cover their rent and other running costs for the first 6 months. After this time, it is expected that the three companies will be externally funded.

I will, of course, be able to assist these companies by introducing them to potential lenders or investors.

At present, we have two unoccupied sole occupancy buildings and three vacant offices/workspaces in shared buildings.

Thanks

Bill

 Reference Material Pre-seen

Write your responses to Shereen's requests in the box below:

From: Senior Finance Manager

To: Shereen Peros, Finance Director

Subject: Re: Occupancy rates





Thank you for completing the Strategic Case Study Exam.

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

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





Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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



Click **Next** to start the test.

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1	60	1	2	(a) 60% (b) 40%
2	60	1	3	(a) 34% (b) 33% (c) 33%
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

You have received the following email:

From: Shereen Peros, Finance Director
To: Senior Finance Manager
Subject: Creation of cloud-based data service

Hi

I have forwarded an email that I received from the CEO.

I need your advice on two matters:

Firstly, explain how digital transformation has changed the business needs of the typical tenants of KCTP and also of KCTP itself.

[sub-task (a) = 60%]

Secondly, explain, using two scenarios, how scenario planning could be used to evaluate whether KCTP should offer cloud-based processing and storage.

[sub-task (b) = 40%]

Thanks

Shereen Peros
Finance Director
KCTP

The email forwarded by Shereen can be viewed by clicking the Reference Material button above.

From: Sanjay Gupta, Chief Executive Officer
To: Shereen Peros, KCTP's Finance Director
Subject: Proposal to create cloud-based data service

Hi Shereen



Most of our tenants are new businesses. They came to KCTP because we provide facilities that enable them to concentrate on their research and development. One of those facilities is our secure data server. However the server, despite recent enhancements, is now close to its ultimate capacity. The lack of further expansion of the server could create problems for us because our tenants' IT requirements are constantly evolving.

Most of our tenants have embraced digital transformation, integrating people, development processes and technology. Improvements in sensor technology mean that the work undertaken by typical KCTP tenants generates increasingly large quantities of data which need to be stored and analysed. There has also been a rapid increase in the number of simulations being performed using software rather than physical modelling.










I plan to hold a Board meeting soon to discuss a proposal that we should develop a cloud-based IT system. This would then be made available to our tenants for their data processing and storage needs. The tenants would have to pay to use the cloud-based system. The system would be fully compatible with the IT infrastructure on KCTP's Campus. The new system would be hosted at a remote site, with a separate back-up facility. I am considering possible locations.











Regards


Sanjay

 Reference Material Pre-seen

Draft a response to Shereen's requests in the box below:

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

Paragraph ▾  ▾         

 Reference Material Pre-seen

A week later, Shereen Peros stops by your workspace and hands you a document.

"I have brought you a news report about the popularity of data centres in Coastland. The Board has decided to locate KCTP's new data centre there, with a view to creating a cloud-based IT service for our tenants. We will recruit local staff to run the data centre and will rent a suitable building.

Our new data centre will require an investment of A\$700 million in the necessary hardware.

I need you to draft a paper for me covering the following:

Firstly, identify and explain the economic currency risks that will arise when operating a data centre in Coastland.

[sub-task (a) = 34%]

Secondly, identify and explain the difficulties that KCTP may encounter when trying to demonstrate its creditworthiness to a Coastlandian bank in order to borrow the A\$700 million required for this investment.

[sub-task (b) = 33%]

Thirdly, identify and explain the factors that KCTP would have to consider if it decides to finance the investment in the data centre by means of a rights issue."

[sub-task (c) = 33%]

The document from Shereen can be viewed by clicking the Reference Material button above.

Coastland Times

Data centres attracted by Coastland's cold climate





Coastland has become a highly desirable location for data processing centres. The country can offer plentiful, cheap electricity thanks to extensive hydro-powered generating stations. Even better, the cold climate makes it inexpensive to cool the many processors in a typical data centre.










Computers are electronic devices that require electrical power to operate. The electrical current running through their components generates a significant amount of heat. Data centres often have thousands of computers operating constantly, generating enough heat to damage hardware or even start a fire. Data centres generally require a lot of power, both to run the computers and also to provide chilled air to keep the equipment at a safe operating temperature.










Coastland's climate makes it possible to build data centres that are chilled naturally by drawing in cold air from outside. That reduces operating costs considerably, with further savings from the availability of cheap and sustainable electricity to power the computers themselves.



Businesses are also attracted by the fact that Coastland has a strong and developed economy and can offer residents a high standard of living. Our currency, the C\$, is one of the strongest on the global markets.

 Reference Material Pre-seen

Write your response to Shereen's requests in the box below:

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

Paragraph         

 Reference Material Pre-seen

Three months have passed. Shereen asks you into her office and says the following:

"I have brought you an extract from yesterday's Board meeting minutes. No decisions were taken on the matters discussed. I need your opinion on two matters:

Firstly, evaluate the ethical implications of KCTP permitting Capital City University to conduct its own internal audit investigations at the new data centre.

[sub-task (a) = 50%]

Secondly, evaluate the proposal made by Chloe Reynolds that KCTP should appoint a part-time executive director to be based at the data centre, with responsibility for its management."

[sub-task (b) = 50%]

The extract from the Board minutes can be viewed by clicking the Reference Material button above.

Extract from Board minutes

Bill McDougall, Director of Operations, reported to the Board on the meetings that he had held with tenants regarding the cloud-based IT service that will be offered after the new data centre has been built in Coastland. He said that feedback had generally been positive, except for a meeting with the directors of Laserfan, a company established by the University of Capital City to develop commercially viable products based on discoveries made from the University's research.

Laserfan's Board is keen to use the cloud-based service as soon as it becomes operational, but has insisted that members of the University's Internal Audit Department should be granted the opportunity to visit the data centre regularly when it is operational, in order to check compliance with physical and software-based controls.










Bill McDougall informed Laserfan's Board that all audits and other checks at the data centre would be conducted by KCTP's Internal Audit Department and that the results would be made available to the service's users. That is common practice in the cloud-based service industry.










Professor Helga Kress, Non-Executive Director, appointed to represent the interests of the University of Capital City, reminded the Board that Laserfan is only one of three tenants who belong to the University. Professor Kress stated that the Boards of all three of the University's companies would insist that the University's Internal Audit Department should be allowed to visit the new data centre and check its controls. She said that other tenants need not be notified of these audit visits. The University's internal auditors are all highly trained and well-qualified professionals.

Chloe Reynolds, Human Resources Director, stated that the new data centre would be a major expansion of KCTP and that perhaps it would be too much for Bill McDougall to manage in addition to his existing duties. She proposed that an additional executive director should be appointed, initially on a part-time basis, to take charge of the data centre. The new director should be based onsite in Coastland.

 Reference Material Pre-seen

Write your responses to Shereen's requests in the box below:

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

Paragraph ▾  ▾        



Thank you for completing the Strategic Case Study Exam.

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

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



Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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

Click **Next** to start the test.

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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	3	(a) 34% (b) 33% (c) 33%

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: Shereen Peros, Finance Director
To: Senior Manager
Subject: Moxopark Lec ("Lec")

Hi

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

The factory units at Lec are designed for the manufacture and assembly of electronic items, but they could also be converted to accommodate biotechnology factories. The buildings are relatively new and have been well maintained.

This would clearly be a major strategic investment for KCTP. I need your advice on two matters:

Firstly, explain, using three scenarios, whether scenario planning could be used to evaluate the potential synergies that could arise from investing in Lec.

[sub-task (a) = 60%]

Secondly, please recommend, with reasons, the factors (other than synergies) that KCTP's Board should consider when deciding whether or not to enter into detailed negotiations with Moxopark Holdings.

[sub-task (b) = 40%]

Thanks

Shereen Peros
Finance Director
KCTP

The attachment to this email can be viewed by clicking the Reference Material button above.

Moxopark Holdings

Mr Sanjay Gupta
Chief Executive Officer
KCTP
Capital City

Dear Mr Gupta

Moxopark Lec

I am writing to investigate the possibility that KCTP might be interested in the opportunity to discuss acquiring our Moxopark Lec subsidiary ("Lec").

Lec owns and operates an industrial estate that borders KCTP's site. The estate comprises a 21-hectare site with 22 buildings, all configured as factory units ranging from 2,000 to 24,000 square metres. All buildings have been optimised for electronics production.



At present, 80% of the buildings are occupied by tenants who are engaged in the manufacture of electronic components and products. The remaining 20% are occupied by tenants who are engaged in other light manufacturing industries.

We are prepared to sell 100% of this subsidiary in order to focus on other developments. We believe that KCTP could stimulate demand for Lec's industrial units and that your existing tenants would benefit from having ready access to excellent electronics factories.










Yours sincerely










Niall Arrington

Chief Executive Officer
Moxopark Holidays

 Reference Material Pre-seen

Draft your response to Shereen's requests in the box below:

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

Paragraph         

Two weeks later, Shereen Peros stops by your workspace and hands you a document.

"I have printed you a copy of the executive summary of a report that has been prepared by our Director of Operations.

At present, 80% of the buildings on the Lec site are occupied by tenants whose rental agreements have anything from 2 years to 8 years left to run. Those agreements do, however, have annual break clauses and so we could ask them to leave much sooner if we wish.

Lec's buildings are all in good condition and could be adapted to manufacture a wide range of products that could potentially serve most of the needs that KCTP's tenants might have for manufacturing.

We have not agreed a price for Lec, but I believe that it will require us to make a rights issue that will increase our market capitalisation by 50%.

I need you to draft a briefing paper for me to present to the Board. It should cover the following:

Firstly, evaluate the suitability, acceptability and feasibility of Bill McDougall's intention to create a commercially successful centre of manufacturing excellence from the Lec site.

[sub-task (a) = 50%]

Secondly, identify and explain the challenges associated with successfully implementing such a large rights issue in order to acquire Lec and recommend how those challenges might be overcome."

[sub-task (b) = 50%]

The document referred to by Shereen can be viewed by clicking the Reference Material button above.

Report on meetings with key KCTP tenants

Prepared by Bill McDougall, Director of Operations

Executive summary

I met with KCTP's Marketing Manager and together we debated how we would make best use of Lec's factory units in the event that we proceed with the proposal. We agreed that we should focus on the creation of a commercially successful centre of "manufacturing excellence" that would prioritise:

- Precision and quality in all activities.
- Flexibility and the ability to manufacture in bulk or in short runs, as required.
- A willingness to collaborate and to explore new product ideas.

Once this had been decided, I met with several current KCTP tenants and described our vision for the Lec site. Most were interested in the prospect of having a manufacturing facility of that nature near to KCTP.

Two weeks later, Shereen Peros stops by your workspace and hands you a document.

"I have printed you a copy of the executive summary of a report that has been prepared by our Director of Operations.

At present, 80% of the buildings on the Lec site are occupied by tenants whose rental agreements have anything from 2 years to 8 years left to run. Those agreements do, however, have annual break clauses and so we could ask them to leave much sooner if we wish.

Lec's buildings are all in good condition and could be adapted to manufacture a wide range of products that could potentially serve most of the needs that KCTP's tenants might have for manufacturing.

We have not agreed a price for Lec, but I believe that it will require us to make a rights issue that will increase our market capitalisation by 50%.

I need you to draft a briefing paper for me to present to the Board. It should cover the following:

Firstly, evaluate the suitability, acceptability and feasibility of Bill McDougall's intention to create a commercially successful centre of manufacturing excellence from the Lec site.

[sub-task (a) = 50%]

Secondly, identify and explain the challenges associated with successfully implementing such a large rights issue in order to acquire Lec and recommend how those challenges might be overcome."

[sub-task (b) = 50%]

The document referred to by Shereen can be viewed by clicking the Reference Material button above.



Report on meetings with key KCTP tenants



Prepared by Bill McDougall, Director of Operations

Executive summary










I met with KCTP's Marketing Manager and together we debated how we would make best use of Lec's factory units in the event that we proceed with the proposal. We agreed that we should focus on the creation of a commercially successful centre of "manufacturing excellence" that would prioritise:










- Precision and quality in all activities.
- Flexibility and the ability to manufacture in bulk or in short runs, as required.
- A willingness to collaborate and to explore new product ideas.



Once this had been decided, I met with several current KCTP tenants and described our vision for the Lec site. Most were interested in the prospect of having a manufacturing facility of that nature near to KCTP.

 Reference Material Pre-seen

Write your reply to Shereen's request in the box below:

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

Paragraph         

 Reference Material Pre-seen

A week later, you receive the following email:

From: Shereen Peros, Finance Director
To: Senior Manager
Subject: Moxopark Lec ("Lec")

Hi

I have forwarded an email that I received from Professor Helga Kress, the Non-Executive Director who represents the interests of Capital City University, which owns 20% of KCTP's equity.

I will answer Helga's email myself, but in order to do so it would be helpful if you would write a paper that covers the following:

Firstly, evaluate the arguments that the acquisition of Lec would be inconsistent with KCTP's Vision and Mission and so should not be undertaken.

[sub-task (a) = 34%]

Secondly, evaluate Helga's argument that the acquisition of Lec would require the appointment of additional directors.

[sub-task (b) = 33%]

Thirdly, recommend with reasons the matters that KCTP should consider when conducting a resource audit prior to making a final decision to acquire Lec. This section of your paper should not cover issues about the competence of the Board or the availability of funding for the acquisition itself.

[sub-task (c) = 33%]

Thanks

Shereen Peros
Finance Director
KCTP

The email forwarded by Shereen can be viewed by clicking the Reference Material button above.

From: Professor Helga Kress
To: Shereen Peros, Finance Director
Subject: Moxopark Lec ("Lec")

Dear Shereen

I am writing to express my concern about the possible acquisition of Lec. I have three major reservations:

- Firstly, KCTP's Vision is "to contribute to innovation in business" and our Mission is "to offer an open, strategic platform for the development of innovation, technology and enterprise".

In my opinion, the acquisition of an industrial park is inconsistent with our vision and mission, which means that the investment should not be undertaken.

- Secondly, if we acquire Lec then we will effectively be doubling the asset base of KCTP, as well as creating a major manufacturing facility. That raises governance issues.

I believe that the acquisition would require us to double the size of KCTP's Board, with additional directors being appointed in order to manage the industrial park while the present directors focus on the existing technology park.










- Thirdly, we lack many of the resources that will be required to make a successful acquisition of Lec.










Regards

Helga

 Reference Material Pre-seen

Write your responses to Shereen's requests in the box below:

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

Paragraph ▾  ▾        



Thank you for completing the Strategic Case Study Exam.

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

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Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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



Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	60	1	2	(a) 60% (b) 40%
2	60	1	3	(a) 34% (b) 33% (c) 33%
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

You have received the following email:

From: Shereen Peros, Finance Director

To: Senior Manager

Subject: Satellites

Hello

I have attached a news report that was published this morning.

The Board is meeting to discuss the possibility that we might attempt to establish KCTP as a centre of excellence for the design and construction of PocketQube satellites. This new technology would involve developing the hardware associated with the satellites themselves along with their payloads and launch vehicles. There would also be a need for software associated with the satellites and their deployment. Therefore, there would be many companies that could be interested in becoming involved and they would obviously need business premises.

We generally have a relatively rapid turnover of tenants. We could actively pursue a strategy of filling vacant buildings or workspaces with tenants who have an interest in this new area of satellite technology when the contracts of our existing tenants expire.

We anticipate that 60% of our tenants could have an interest in this area within two years.

I require your advice on two matters:

- Firstly, explain, using three scenarios, how scenario planning could be used to evaluate the idea of making the KCTP Campus a centre of excellence for the design and construction of PocketQube satellites.
[sub-task (a) = 60%]
- Secondly, identify and describe the challenges that we would face in determining the acceptability of this proposal to our shareholders and recommend appropriate responses.
[sub-task (b) = 40%]

Regards

Shereen Peros
Finance Director
KCTP

The attachment to this email can be viewed by clicking the Reference Material button above.

Advland Telegraph

Capital City aims to win space race




Capital City is rapidly becoming the most popular location in Advland for the development and manufacture of PocketQube satellites. This is a generic name for miniature satellites that are 5cm cubed in size and have a mass of less than 250 grammes.

PocketQubes are generally intended to be an inexpensive

means of benefitting from satellite technology. They are significantly smaller than conventional satellites and so the rockets that are used to launch them into orbit can carry deployers that can eject several PocketQubes into their correct orbits. Those deployers can even be carried alongside traditional, full-sized satellites and so they may not require a separate launch to get them into orbit.

PocketQubes can be very useful, despite their small size. For example, a single PocketQube can be used to provide communications facilities at ground level and a constellation can cover a much larger footprint. Or a satellite might carry a camera that can be used to make observations or take readings from space that can inform decision makers about (for instance) crop yields, or pollution levels, etc.

The versatility of PocketQubes means that a vast range of scientific and engineering skills are needed, allowing for different launch vehicles, satellite bodies and the payload.

 Reference Material Pre-seen

Write your response to Shereen's requests in the box below:

From: Senior Manager

To: Shereen Peros, Finance Director

Subject: Re: Satellites



Reference Material

Pre-seen

A month later, Shereen Peros hands you a document and says the following:

"I have brought you an extract from a report that I had commissioned in relation to our possible move to attract tenants who design and build PocketQube satellites. As you can see, the experts believe that KCTP's revenue and beta will both increase if we proceed.

Bill McDougall, our Director of Operations, is very keen that we should proceed with attracting tenants who have an interest in the satellite industry. That seems to have encouraged some dysfunctional behaviour by his Marketing staff. We currently have a vacant building and Marketing has rented it to a tenant without first conducting the standard background checks, including checks on credit history. When asked, KCTP's Marketing Manager said that the tenant was given priority because it designs satellite communication systems and there was a concern that the tenant would go to another technology park.

Bill McDougall claims that he had been unaware that checks had been overlooked by his staff. Our Non-Executive Chair has suggested that it might be appropriate to appoint an additional independent non-executive director to take a specific interest in KCTP's focus on the satellite industry.

I need you to draft a paper that covers three matters:

- Firstly, explain the relevance to the Board of the financial analyst's findings that specialising in tenants with interests in PocketQube technology will increase KCTP's revenue and beta.

[sub-task (a) = 34%]

- Secondly, explain whether we should ask KCTP's Internal Audit Department to investigate the incident involving the new tenancy agreement.

[sub-task (b) = 33%]

- Thirdly, evaluate the Non-Executive Chair's suggestion that KCTP should appoint an additional independent non-executive director to take a specific interest in our possible focus on the satellite industry."

[sub-task (c) = 33%]



The document from Shereen can be viewed by clicking the Reference Material button above.

Financial analyst report










Executive summary











At the request of KCTP's Board, we analysed the likely impact of refocusing the company's strategy on the PocketQube sector. We investigated this by studying a number of other technology park operators who have specialised in one specific industry sector. Our findings are as follows:



- Specialisation creates synergies between tenants, which generally enables parks to charge slightly higher rents with a lower risk of vacant units.
- Technology parks are more exposed to systematic risks when they expose themselves heavily to a single industry. We estimate that KCTP's beta coefficient would increase from 0.9 to 1.1 over time.

 Reference Material Pre-seen

Write your response to Shereen's requests in the box below:

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

Paragraph          

 Reference Material Pre-seen

A month later, Shereen stops by your workspace and hands you a document:

"Sanjay Gupta has been talking to potential tenants from the satellite industry. This letter is of concern to him, even though it is the first formal response he has received. I am working on a briefing for the Board.

We did, of course, know that the space industry has traded in V\$ for historical reasons, even though it is now a global industry. Most of KCTP's past and current tenants have been happy to do business in A\$.

I need your advice on two matters:

- Firstly, explain how focusing on the satellite industry would impact on our translation, transaction and economic exposures to movements in the exchange rate between the A\$ and V\$ and recommend how these exposures could be managed.
- Secondly, recommend, with reasons, how a focus on the satellite industry should be reflected in KCTP's risk register."

[sub-task (a) = 50%]

[sub-task (b) = 50%]

The document from Shereen can be viewed by clicking the Reference Material button above.

Rocklaunch Satellite Services

Mr Sanjay Gupta
Chief Executive Officer
KCTP
Capital City
Advland

Dear Mr Gupta

Property rental

Thank you for taking the time to meet with me and for allowing me to inspect your facilities. I was impressed with the Park itself and also your location, close to several leading universities. Unfortunately, your insistence on charging rent in A\$ means that we cannot agree to locate at KCTP.

Our home currency is the P\$, but you should know that the satellite industry conducts its business in V\$. All of our revenues and many of our costs are in V\$. It would complicate our treasury arrangements to incur significant rental costs in A\$.

Yours sincerely










Christian Corthouts










Christian Corthouts

Chief Executive Officer

 Reference Material Pre-seen

Write your responses to Shereen's requests in the box below:

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Paragraph ▾  ▾        



Thank you for completing the Strategic Case Study Exam.

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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) 60% (b) 40%
2	60	1	2	(a) 50% (b) 50%
3	60	1	3	(a) 34% (b) 33% (c) 33%

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

Shereen Peros, KCTP's Finance Director, says the following to you:

"I have brought a copy of a letter received from a major foreign university by our CEO.

Quantum computing is an exciting area that is still in the early stages of development. In time, quantum computers will enable many significant advances in scientific and technological research and development. The University of Eastland ("UoE") is widely acknowledged as a leading centre of excellence in quantum computing.

KCTP's Board is concerned that UoE may face political risks in getting established in Advland, which could impact on KCTP.

The Board will meet this afternoon to discuss this proposal. Before then, I need your advice on two matters:

- Firstly, explain, using three scenarios, how scenario planning could be used to evaluate whether we should encourage UoE to become established at KCTP.

[sub-task (a) = 60%]

- Secondly, identify and evaluate the political risks faced by UoE in establishing itself in Advland."

[sub-task (b) = 40%]

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

University of Eastland

Mr Sanjay Gupta
Chief Executive Officer
KCTP
Capital City
Advland

Dear Mr Gupta

Proposed collaboration

The University of Eastland ("UoE") is one of the best respected research centres in the country of Eastland. We are working to develop new international links in the area of quantum computing. I am writing to explore the possibility that we might rent one of KCTP's larger buildings to provide us with a research base and business centre in Advland.

It would be our intention to make a significant investment in computer hardware and also a major commitment in terms of staffing, both through the relocation of senior research staff from UoE and the local recruitment of research, technical and support staff from Advland. We would expect this to be a long-term commitment on our part and so we hope that KCTP will support us by reducing the rent to a realistic level. This will be the University's first major investment in your country.



We are seeking the necessary clearances from Advland's Government in order for our proposal to proceed. Any assistance that KCTP might offer in support of that process will be welcomed.

Yours sincerely










Heather Lee











Professor Heather Lee



Associate Principal

 Reference Material Pre-seen

Write your response to Shereen's requests in the box below:

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

Paragraph          

 Reference Material Pre-seen

Six months later, the University of Eastland ("UoE") has taken possession of KCTP's largest building, having signed a 5-year lease. You receive the following email:

From: Shereen Peros, Finance Director
To: Senior Finance Manager
Subject: UoE

Hi

I have forwarded an email that our CEO received from UoE. I have been asked to submit a report on some of the implications and I need your help with two matters:

- Firstly, identify the risks that would arise for KCTP if we allowed UoE to upgrade and then be responsible for the on-going provision and management of the IT infrastructure on our campus.
[sub-task (a) = 50%]
- Secondly, evaluate the implications of using the A\$40 million from UoE to make a partial share repurchase, assuming that we had no specific need for the cash.
[sub-task (b) = 50%]

Regards

Shereen Peros
Finance Director
KCTP

The email forwarded by Shereen can be viewed by clicking the Reference Material button above.

From: Professor Heather Lee, Associate Principal, University of Eastland
To: Mr Sanjay Gupta, Chief Executive Officer, KCTP
Subject: KCTP IT infrastructure

Dear Mr Gupta

Our building at KCTP is now fully operational. Unfortunately, we are running into difficulties associated with the IT infrastructure on campus. This will require a significant upgrade if it is to permit us to achieve our full potential.

The Senate of the University of Eastland proposes that we purchase the existing IT infrastructure, including the cabling across the KCTP Campus and the server building. Once we have completed this transaction, the University of Eastland will commence a phased upgrade programme that will significantly increase data transfer rates and storage capacity on the servers. We will also improve external links.



We will ensure that service levels do not deteriorate during the upgrading process. Afterwards, we will take full responsibility for the provision of KCTP's IT infrastructure, including the employment of staff.

All existing users, both KCTP and other tenants, will be free to use our new system without restriction and without charge.

We will pay A\$40 million for the IT infrastructure.

Regards



Professor Heather Lee
Associate Principal
University of Eastland

 Reference Material Pre-seen

Write your reply to Shereen's email in the box below:

From: Senior Finance Manager
To: Shereen Peros, Finance Director
Subject: UoE



 Reference Material Pre-seen

Six months have passed. The University of Eastland ("UoE") found an easier way to solve its IT issues and so has withdrawn its offer to upgrade and operate KCTP's IT infrastructure. Shereen stops by your workspace and hands you a document.

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

I need you to draft a paper for me that covers the following:

- Firstly, evaluate Professor Helga Kress' argument that UoE should not be permitted to rent two additional buildings because doing so would be inconsistent with KCTP's Mission.

[sub-task (a) = 34%]

- Secondly, evaluate Sanjay Gupta's argument that KCTP has an ethical duty to protect its stakeholders against aggressive staff recruitment by UoE.

[sub-task (b) = 33%]

- Thirdly, evaluate the strengths and weaknesses of Bill McDougall's argument that directors' salaries should be increased."

[sub-task (c) = 33%]

The document from Shereen can be viewed by clicking the Reference Material button above.



Extract from Board minutes

The Board discussed a request from UoE to rent a further two buildings in addition to the building that is already under rental. UoE have now been on the KCTP campus for over a year and have said they are pleased to be here and that their projects are progressing well. They would like to have additional laboratories here and that is why they need to rent two more of our buildings. UoE have said that they will staff the laboratories with locally recruited physicists and engineers.

Professor Helga Kress, the Non-Executive Director appointed by the Capital City University, expressed concern that encouraging UoE to occupy more space was inconsistent with KCTP's Mission "to offer an open, strategic platform for the development of innovation, technology and enterprise". As a scientist, she recognised the importance of quantum computing, but she believes that it will take decades to develop a practical quantum computer.










Sanjay Gupta, CEO, stated that he suspected that UoE was using its base at KCTP to recruit key research staff from other tenants and from nearby institutions, including the Capital City University. He believed that KCTP had an ethical duty to protect the interests of those stakeholders against UoE's recruitment policies.










Bill McDougall, Director of Operations, pointed out that the workload of the executive directors had increased significantly since UoE arrived at KCTP. Agreeing to this further request by UoE will increase the workload still further. He proposed that this should be matched by an increase in directors' salaries.

It was agreed that decisions on these matters would be deferred until they can be discussed in more detail.

 Reference Material Pre-seen

Write your responses to Shereen's requests in the box below:

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

Paragraph         



Thank you for completing the Strategic Case Study Exam.

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

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



Strategic Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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



Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-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	3	(a) 34% (b) 33% (c) 33%

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

Shereen Peros, Finance Director, hands you a report and says the following:

"The Board is meeting later today in order to discuss this report.

The only people who know about this intrusion are the members of our Security Department, the police and the tenant who called the police. The tenant does not know that the intruders were attempting to access our network.

The Security Department's IT specialist has scanned KCTP's servers and did not find any irregularities, but that does not guarantee that the intruders did not compromise software or data.

The CEO has told Board members that we do not intend to inform tenants about the intrusion until more is known. All we know for certain is that two unauthorised people were on our campus and were able to open a manhole cover.

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

- Firstly, identify and explain how this incident helps us to understand the importance placed on our IT infrastructure by our tenants and recommend how we can manage their expectations.

[sub-task (a) = 60%]

- Secondly, evaluate the ethical implications of withholding news of the intrusion until more information is available."

[sub-task (b) = 40%]

The report from Shereen can be viewed by clicking the Reference Material button above.





Security Department incident report

At 03.00 hours this morning, the duty security staff at the main gate assisted four uniformed police officers who were responding to an emergency call from a KCTP tenant. A tenant had telephoned the police after seeing two intruders on the grounds close to her building.










Two of KCTP's patrols assisted the police to locate the intruders. The intruders had opened a manhole cover that provides access to a router carrying data on KCTP's network. One of the intruders had lockpicking tools that could have been used to operate the lock on the hatch that protects the router. The hatch was locked when the intruders were apprehended, and they refused to answer when our security staff asked them whether they had opened it. The intruders also had a laptop computer and cables that would have enabled them to connect it to KCTP's router. In theory, they could have connected their laptop to the router and either uploaded malware or downloaded data to the laptop's hard drive.











The police arrested the intruders and took their laptop as evidence. We have not been permitted to examine the laptop. The intruders have refused to assist in the police investigation.


Security Department staff have studied CCTV recordings from last night and cannot find any sign of unauthorised entry. The intruders clearly had the necessary skill and knowledge to avoid the coverage of the cameras and other security systems that protect our campus.

 Reference Material Pre-seen

Draft your response to Shereen's requests in the box below:

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

Paragraph          

 Reference Material Pre-seen

Two weeks have passed. The attempted security breach is still under investigation, but nothing has been learnt about the intruders' motives. Shereen Peros joins you at your workspace and places her tablet computer in front of you.

"The Board is considering the acquisition of a cybersecurity company that could offer our tenants a cybersecurity service that is integrated with our campus network and IT systems. Our intention would be to charge a substantial additional fee for that service, but we expect that many tenants would be prepared to pay because most make heavy use of our IT services and of our KCTP Business Services.

We have already met with the CEO and founder of Capital City ITGard ("ITGard"). She is open to the possibility of selling us 100% of her unquoted company, provided we offer a realistic price. She would be prepared to continue to run the company in return for a salary.

ITGard has a good reputation in the cybersecurity industry. It employs 25 experienced cybersecurity professionals. It operates from a rented office space and could easily relocate to a workspace on our Campus. Although ITGard would primarily focus on the needs of KCTP, it would have sufficient capacity to allow it to continue to serve external clients.

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

- Firstly, evaluate the proposed acquisition of ITGard in terms of its consistency with KCTP's mission to "offer an open, strategic platform for the development of innovation, technology and enterprise".

[sub-task (a) = 50%]

- Secondly, discuss the challenges associated with determining a realistic purchase price for ITGard and recommend a suitable valuation model that we could use."

[sub-task (b) = 50%]

Shereen's tablet computer screen can be viewed by clicking the Reference Material button above.





Capital City ITGard

We were founded in 2005 and have developed a reputation for excellence in the provision of cybersecurity services. We offer our clients a variety of practical and effective responses to the ever-evolving strategic threats that they face.










Dr Samudra Senarath, our founder and CEO, is an experienced security professional. She has held senior IT security positions in both government departments and major commercial organisations. Dr Senarath decided to establish her own company in order to pursue her vision of achieving excellence in the provision of cybersecurity to her clients.











Samudra has assembled a team of dedicated cybersecurity professionals, offering key services:



Managed security services	Our 24-hour monitoring centre offers an immediate response to anomalies detected in client systems.
Incident response	We can offer an immediate response to concerns reported by clients.
Risk analysis	Our in-house consultants can review systems in order to identify vulnerabilities and recommend proportionate responses.
Penetration testing	Our security testers can probe systems in order to test the effectiveness of their security measures.

 Reference Material Pre-seen

Draft your response to Shereen's requests in the box below:

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

Paragraph          

 Reference Material Pre-seen

Three months later, you receive the following email:

From: Shereen Peros, Finance Director
To: Senior Finance Manager
Subject: ITGard

Hello

I have attached an extract from the minutes of a recent Board meeting. I need your advice on three matters:

- Firstly, evaluate Dr Senarath's claim that continuing formal training is of little value in enhancing the skills of experienced cybersecurity professionals.

[sub-task (a) = 34%]

- Secondly, evaluate Chloe Reynolds' concern that, now that we have acquired ITGard, Dr Senarath leaving would be a severe loss to KCTP.

[sub-task (b) = 33%]

- Thirdly, explain whether Internal Audit might have a role to play in ensuring that all of KCTP's professional staff, not just those engaged in cybersecurity, are completing sufficient ongoing training.

[sub-task (c) = 33%]

Regards

Shereen Peros
Finance Director
KCTP

The attachment to this email can be viewed by clicking the Reference Material button above.


Extract of Board minute

Sanjay Gupta, Chief Executive Officer, reminded the Board that it is now two months since KCTP purchased 100% of ITGard. The intention had been to sell cybersecurity services as an additional service to our tenants.

Bill McDougall, Director of Operations, reported that the initial uptake from tenants has been disappointing. Dr Samudra Senarath, ITGard's founder and CEO, did not impress KCTP's tenants when she visited them. Several tenants were keen to delegate responsibility for cybersecurity but were unhappy with Dr Senarath's responses when they asked her about ongoing training that had been taken by her staff.

Chloe Reynolds, Human Resource Director, stated that ITGard's professional staff had completed almost no formal training in the past two years. She added that Dr Senarath claimed that formal training was of little value in enhancing the skills of experienced cybersecurity professionals. Ms Reynolds expressed concern that Dr Senarath might resign if KCTP's Board presses her on this matter.

Shereen Peros, Finance Director, proposed that a further Board meeting be scheduled soon in order to discuss ITGard in detail.

 Reference Material Pre-seen

Write your responses to Shereen's email in the box below:

From: Senior Finance Manager

To: Shereen Peros, Finance Director

Subject: ITGard





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
NOVEMBER 2020 & FEBRUARY 2021
EXAM ANSWERS

Variant 1

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SECTION 1

Requirement 1 – Digital strategy

Strengths

KCTP's campus offers good IT infrastructure in terms of cabling between buildings and the company's IT centre. That would make it relatively easy to install efficient and secure systems in the various buildings. It would be a relatively simple matter to reconfigure most of the buildings to convert them to shared occupancy buildings, allowing for potential tenants' needs. The infrastructure already exists to enable them to equip those spaces with workstations that could then facilitate this new approach to engineering. KCTP is a known brand and could use its prior relationships to attract potential tenants to this new style of facility.

No matter how much use is made of simulations, it will always be necessary to build and test physical models. KCTP would be well placed to serve tenants of a digital campus by creating the facilities to fabricate and test physical prototypes, perhaps by leaving one or two buildings as engineering workshops with a range of fabrication and testing equipment. Tenants could then supplement their use of the digital resources provided by KCTP with the analogue and physical capacity that they need for proving and testing their designs. KCTP's contacts would help the company to identify the facilities that would be required in order to avoid being constrained by a digital strategy. KCTP might also be well placed to hire technicians who might otherwise be faced with redundancy because they work for tenants who are moving to a digital strategy.

Weaknesses

It could be argued that KCTP's expertise lies in the provision of secure and adaptable physical construction space and that it would be difficult to create a selling proposition for the rental of spaces in which to pursue electronic design

work. Tenants might be reluctant to rely heavily on the IT infrastructure if KCTP pursued a wholly digital model. This is because there could be too much demand on the campus networks and data connections, whereby communications could be slowed or even disrupted. That perception might remain, even if KCTP upgraded its infrastructure, because computing needs are likely to grow over time rather than remain constant. Also, the campus is a large and open site that is designed to offer privacy and accessibility. It might not be cost effective to convert buildings to IT centres because facilities costs may be high relative to rents on digital facilities.

The fact that spaces have remained vacant suggests that there has not been a growing demand for campus-based simulation and other IT facilities. The vacancies imply that departing tenants have not been replaced by incoming businesses with a need for large networks of engineering workstations. The dynamic of computer-based design and simulation means that teams need not be located in the same physical location. It may also be more desirable to establish design offices in locations that are more attractive to staff, such as city centre offices that offer easier commutes.

Requirement 2 – Suitability

The strongest argument in favour of this proposal is that KCTP has a strength in the provision of adaptable and attractive buildings and workspaces. Configuring vacant buildings for light industrial and other uses would be no more difficult than reconfiguring buildings between the technology companies who rented properties in the past. The buildings themselves are also designed so that they can be extended and modified and so there is scope for meeting a wide range of requirements. KCTP's staff have also had to develop an understanding of the capacity of the Campus infrastructure and so they can provide prospective industrial tenants with clear and credible assurances of whether their needs can be met.

The site is well laid out and attractive and so should be well suited to tenants who need both top-quality resources and a base to which they can invite customers and other business contacts. KCTP's background as a research centre could support the impression that tenants are technologically advanced and so, capable. KCTP could maintain such positive impressions by insisting that the Campus remain an attractive place, by requiring tenants to keep the areas surrounding their units tidy. It might also be possible to focus more on tenants with interests that support more of a technological theme, such as the manufacture of electronic circuit boards.

The fact that KCTP's change of direction is promoted by a need to fill vacant spaces rather than through an actual opportunity to rent out to a wider range of tenants suggests that this move may not be suitable. This is clearly a defensive response to the loss of revenue from traditional business sources and not a positive pursuit of a more desirable business strategy. Apart from anything else, this will mean competing with conventional industrial spaces for tenants and so it may be necessary to accept much lower rents than have been generated in

the past. KCTP should at least undertake market research in order to establish how it might occupy its vacant spaces before making this change of direction.

There is a danger that seeking industrial and other tenants will prove disturbing to existing tenants from a design background. Many of those are start-ups who are keen to make use of the reputational and practical implications of being located on a leading technology park. The sudden influx of generic tenants could cost KCTP its air of exclusivity and so encourage existing tenants to move on. KCTP will be going against its mission in order to deal with what might prove to be a temporary setback.

Section 2

Requirement 1 – Sale by Capital City University

In the short term, KCTP's share price would fall substantially. The capital markets are like any other markets in terms of the effects of supply and demand and the sale would create a glut of shares on the market. If the University started by announcing that it planned to sell the whole of its stake, then the other market participants would have no particular incentive to pay the full market price to a seller who is keen to sell. If the University makes a series of small sales, then there will be a constant pressure on the share price, with the sales implying that someone believes that the shares are overvalued.

The market is likely to believe in the short term that the University is aware of information that will lead to a decrease in the share price when it is eventually made public. The University could announce that it has no concerns about KCTP's future, but that would hardly be a credible announcement given that they intend to sell the shares for the highest amount possible. The fact that the University will be accepting less than the previous market price will be a further signal to the market that it possesses bad news. In time, the share price will recover when the markets realise that no bad news appears to be forthcoming.

KCTP will not necessarily be directly affected by any depression in the share price. The other shareholders will suffer a temporary loss of wealth because their shares will have a lower market value. That could lead to concerns that the Board may face pressure from unhappy shareholders, but the fact that the Board knows that the market signals have been misleading should hopefully prevent a panic. It would be inconvenient if the Board intended to sell new shares on the market because more shares will have to be issued to raise any given amount. KCTP itself will not suffer any loss, even in that case. It would lead to an unnecessary dilution in the value of existing shares, which would harm the shareholders but not the company itself.

It is possible that the University will seek a specific buyer for this stake, if only to prevent selling the shares for significantly less than present market value. That could lead to a shareholder who already owns shares having an even greater influence than the University had. That emerging shareholder might take a more active role in deciding future strategy than the University did and any director whom they nominate could prove more intrusive. It may even be possible for the new buyer to obtain a controlling interest in KCTP and make it a subsidiary of a larger group.

If the 20% block of shares is broken up and sold to a large number of small investors, then KCTP will lose the continuity that the University's interest had provided. It is clear that the University wished to be associated with KCTP in the long term and to encourage it to develop as a base for technology start-ups. The University may not have had the same desire for short-term gain that characterises most investors and so KCTP's Board was not under the same pressure that affects the boards of most quoted companies. In the case of any dispute, the University had an incentive to encourage matters to settle down and the means to bring that about through its large block of shares.

Requirement 2 – Professor Kress

Professor Kress was appointed to KCTP's Board to represent the University's interests, which suggests that she should always feel free to refer to the University's interests whenever she believes that it is appropriate to do so. The alternative would be for her to pursue the University's interests in a less overt and therefore less transparent way. By raising her concerns during the meeting, the other directors were made aware of her concerns and the action that she proposed to take. It should be noted that she declared an interest by stating that she was acting on the University's behalf.

Raising those concerns during the meeting itself gave the Board the opportunity to make an informed decision as to how it should proceed. It is potentially helpful to the Board for it to be clear that Professor Kress will make that recommendation to the University. The Board was then in a position to discuss that situation and to decide on the best course of action for KCTP. If the Board wishes to prevent the loss of the University as a shareholder, then it will have to seek a compromise or abandon the proposal to change the nature of its tenants.

KCTP's Board has a collective responsibility to pursue the shareholders' interests. Professor Kress shares that responsibility, despite the fact that she also has a specific duty to look after the University's interests. She has actually behaved correctly by informing the Board that its plans would be unacceptable to this major shareholder. She is not abusing her position by doing so. It would have been more of an abuse to have created an argument against the proposal on the basis of an artificial argument that appears to be based on commercial logic.

Section 3

Requirement 1 – Reputational risks

There is a significant risk that these businesses will fail, leaving staff without jobs and debts unpaid. Even if they have no direct relationship with KCTP, a large number of failures will be associated with the company. The businesses themselves are to be founded and managed by academics, who may have little experience of business, including managing costs and cash flows. The selection criteria for this project appears to be lacking any absolute views on the projected viability of the businesses. The businesses will be given limited initial funding on the basis that they have more chance of commercial success than the other proposals being offered.

Bill intends to introduce these business founders to contacts in the financial community in the hope of raising finance. That will clearly link KCTP to these ventures in the minds of the lenders, even if Bill's only role is to put the lenders in touch with the borrowers. If these new businesses default then future tenants will be associated with those losses, which could lead to KCTP being avoided by potential tenants. Bill's personal reputation will also be affected, which can only reflect badly on the company.

There will be a human cost to the academics whose time and, perhaps, personal wealth will be at risk. If their businesses fail, then they may blame KCTP for encouraging their participation in a reckless business venture. The damage may be significant because the University may also take the view that KCTP has let these start-ups fail.

Requirement 2 – Social and relationship

KCTP could refer to the aspects of its mission, vision and values that this arrangement underpins. These documents constitute commitments that underpin KCTP's licence to operate by identifying the ways in which it will contribute to society's needs. The company's fundamental vision is to contribute to innovation in business and that is clearly happening in this case because Bill's arrangement with the University appears to be giving an opportunity to develop research findings into businesses that might otherwise have been unable to secure initial funding.

KCTP already has a strong relationship with the University of Capital City, having been founded by that institution and having served as a base for business start-ups created by its staff. The arrangement will strengthen the ongoing relationship with that stakeholder by creating an outlet for its research findings. It is also a demonstration of the University's commitment to KCTP, with funds being set aside to fill spaces that would otherwise lie empty and possibly discourage other tenants from remaining there.

Bill's intention to introduce the start-ups to providers of finance will further the relationships between KCTP and lenders and between lenders and tenants. The lenders will benefit from the opportunity to do business with these new businesses, conducting their own due diligence in order to evaluate the credit

risks. The tenants will benefit from the initial contact sponsored by Bill, making it easier for them to secure the funding that they require.

KCTP is a large employer, and the job security of its staff depends on the company's ability to generate revenues from tenants. Bill's arrangement will demonstrate that the company is keen to maintain present levels of activity and so will reassure staff that their jobs are not at risk.

The relationship with existing tenants could also be preserved and enhanced by taking steps to avoid leaving empty spaces. Tenants are attracted by the fact that the campus offers an attractive environment that enhances their credibility in any dealings with potential buyers or users of the technologies that are being developed. That credibility could be undermined if spaces are left unoccupied.

Requirement 3 – Internal audit

The primary role of internal audit is to check that formal procedures are being complied with. Audit resources are generally allocated on the basis of risk, both in terms of the likelihood of a compliance failure and the risks arising from that for the entity. In this case, the matter is a serious one because the failure to check on health and safety could have led to injury or damage to other tenants' equipment.

It may not be necessary to use internal auditors in this case because the Board can simply ask Bill if the concerns are true. Bill is a director and so should be trusted to respond truthfully to any such request. If he admits the allegation, then he can be asked for an explanation and so the Board can decide whether his behaviour was acceptable without having to seek input from internal audit.

It seems likely that Bill has treated these tenants as a special case, with the tenants transferring staff and equipment from the University. The start-up companies may already have checked the safe operation of their equipment and may be reluctant to delay the process of relocating and testing it at its new location at KCTP. In that case, KCTP could have lost the new tenants.

It would be awkward for the internal audit department to conduct an investigation into alleged wrongdoing on the part of a director. It could be intimidating to write a detailed and frank report that criticised an executive director's behaviour, even though KCTP has a separate audit committee comprising non-executive directors.

STRATEGIC CASE STUDY
NOVEMBER 2020 & FEBRUARY 2021
EXAM ANSWERS

Variant 2

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SECTION 1

Requirement 1 – Digital transformation

The growth of digital technologies, such as simulation and 3D printing, has created a situation in which there is less need for engineering laboratories and workshops. Computer assisted design is an established technology that enables engineers to collaborate and to share projects without necessarily being in the same physical location. These technologies make it possible to develop and conduct significant levels of testing on designs without incurring the cost and delay associated with building physical prototypes. Standardised software packages make it possible to design parts and assemblies that can then be incorporated into a larger design. For example, the mountings for a motor can be designed as a separate exercise and then incorporated into the product. It will also become increasingly practical to use external consultants and specialists to contribute to specific elements of a design project. Project teams, including external contributors, will be able to meet and agree plans and discuss test results using video conferencing.

The physical infrastructure provided by KCTP is likely to become increasingly redundant in the relatively near future, with more potential tenants choosing to work online. Over time, KCTP will have to adapt or face the risk of closure because there will be a decreasing demand for the company's spaces. Even the service companies that locate themselves on campus may struggle to stay in business because fabricators can be based almost anywhere and can receive designs and instructions electronically. At present, KCTP exists largely because it offers a desirable location, close to potential collaborators and beside major transport hubs. Those advantages will become increasingly irrelevant. Technology parks will have to adapt significantly or face closure.

A cloud-based service could create an opportunity for KCTP to develop long-term links with its tenants that will not be superseded by new technologies. In the longer term, tenants will grow and move towards digital strategies to manage their design projects. KCTP will be able to facilitate the data handling and transmission aspects. The digital transformation will create a growing need for secure and high-speed data links that can adapt to meet the challenges that increasingly complex designs and simulations will require. Tenants may outgrow KCTP's campus, but they may be prepared to continue to use a cloud-based service that has given them good service and can be trusted to continue to do so. KCTP could use the contacts that it has with its present tenants to gain experience and to generate initial revenues from this new service. Once established, KCTP could then seek additional cloud-service clients because its capacity could be expanded to meet demand.

The initial attraction of using KCTP is that it has established trust by providing tenants with secure and reliable support, including IT services. Trust and security are major concerns with regard to digital design projects because the electronic files are vulnerable to hacking and theft. In addition to current tenants, KCTP could reach out to previous tenants in order to sell the concept of a cloud-service that is optimised for design work. KCTP could also seek synergies between the cloud-service and other digital technologies. It would, for example, be possible to attract tenants who provide, say, 3D printing. KCTP could check the backgrounds and integrity of such tenants and could encourage cloud-service clients to use them.

Requirement 2 – Scenario planning

Scenario planning is a useful tool that is potentially valuable when making strategic decisions, such as whether to invest in this new IT service. It encourages senior management to consider possible outcomes and to evaluate their likelihood and impact. Doing so would help evaluate risk by identifying potential upsides and downsides and predicting their consequences in the event that they occur. In addition to understanding the risks, the Board would be able to defend any subsequent criticism on the basis that it had considered possible drawbacks as part of the planning.

For example, KCTP might evaluate scenarios relating to the commercial viability of cloud-based computing in this context, including the possibility that the cost of bringing some functions in-house could prove uneconomic. In this case, the cost of providing a secure online service for collaboration and sharing might rise rapidly because of shortages of qualified security experts and so third-party providers such as KCTP might have a significant advantage. Similarly, the size and nature of the files and the specialised software used for these applications might impose strict requirements on hardware and staffing for any cloud-based service. It may be desirable to take the lead in providing this service in order to ensure that KCTP can establish a reputation as a centre of excellence for these applications.

Scenario planning could also help KCTP to develop contingency plans for scenarios that might arise in the event of proceeding with this project. Having contingency plans ready will speed up the response because managers will be able to refer to the relevant plans and files. The plans may also identify assets and contractual commitments that should be identified in advance so that KCTP can react quickly, hopefully more quickly than competitors.

One possible scenario might be that a major accident could discredit the increasing reliance on simulations. Regulators and other stakeholders might threaten to insist on a return to traditional prototyping and testing. KCTP might prepare for that scenario by putting acknowledged experts on a retainer so that it is ready to offer credible legal and technical arguments in favour of the digital approach being taken by its tenants. The company might also make a similar arrangement with a leading public relations company so that it can be certain that competing technology parks will not be able to engage the very best advisers. Such a contingency plan will also give KCTP the flexibility that it requires to respond to any such events in an informed and responsive manner.

Section 2

Requirement 1 – Economic risks

The new data centre will incur costs for electricity and for staffing, both of which are almost certain to be in C\$. If the C\$ is strong then it could appreciate against the A\$, which would increase KCTP's operating costs when converted to A\$. Any increases in operating costs because of currency movements will either reduce KCTP's profits or will require it to increase charges to clients, which could cost revenues.

The fact that this location is being selected because of the low-cost base implied by cheap electricity and the ability to chill servers using natural cooling, suggests that KCTP will be starting from a relatively low-cost base if it locates there. That will not prevent additional volatility because of movements between the A\$ and C\$, but it will permit KCTP to set a reasonably high mark-up on its services, which may be more than is strictly required in the first instance. Hopefully, the company will still make a profit in the event of a small increase in costs because of currency movements.

The geographical advantages of Coastland might attract other cloud-based service companies, including KCTP's competitors. That could eliminate much of the risk of becoming uncompetitive in the event of having to increase service costs in response to any strengthening of the C\$. KCTP will still have to accept any currency risks in the short term, but any significant or prolonged increase in costs can probably be passed onto clients, thereby minimising the impact of that risk.

In the longer term, KCTP's clients will be primarily interested in the quality of service, particularly in terms of continuity and security. While price will be an issue, it would probably require a marked increase in the strength of the C\$ to impose any significant risk that clients would refuse to stay with KCTP in the event of a price rise. The likelihood of such a massive exchange rate movement can be evaluated by examining economic indicators, such as interest and inflation rates, in order to determine whether the A\$ is likely to weaken significantly against the C\$.

Requirement 2 – Creditworthiness

One key difficulty will be that KCTP is not known to the Coastlandian banks. Lenders in Coastland may be suspicious of a company coming from a different country and seeking to raise money. They may wonder if the reason KCTP is approaching them is that they have been turned down by banks in Advland.

If everything remains the same, borrowing an additional A\$700 million will not have a significant impact on KCTP's gearing. Lenders might take the view that an increase from $660/(660+5,933) = 10\%$ to $(660+700)/(660+700+5,933) = 19\%$ is a respectable ratio and so they might not be unduly discouraged by the

increase. The problem is that gearing will be doubling at a time when the company is entering a period of transition and so it might be difficult to persuade potential lenders that the company is a good risk.

The relatively low gearing ratio could increase dramatically because of the concerns that the technology park may become obsolete. The ratio itself could increase if the properties are subject to a revaluation and the book value has to be reduced. That would decrease equity as well as assets and so increase gearing even further. The assets that are presently on KCTP's statement of financial position will also be far less attractive as security.

The fact that the funds are being borrowed in order to finance a significant change in direction will mean that lenders may be nervous about the company's ability to service its total debt. KCTP is effectively proposing a major investment in a new venture that has yet to be proven to potential users. If that is unsuccessful then the loans may not be properly serviced, creating the risk of late payments and debt rescheduling. Even if KCTP manages to complete its repayments, there will be a loss of management time.

The new venture will not be a particularly secure basis for securing the loan. Firstly, because it will be in the form of IT equipment that is being bought for a specific purpose. It will quickly become obsolete and so will be less attractive to potential buyers in the event that lenders have to take possession. There is also the concern that most of KCTP's other assets will be located in Advland, which may lead to legal issues in the case of any enforcement.

Requirement 3 – Rights issue

The Board will have to be able to justify incurring the significant cost involved in a rights issue to the shareholders, including professional fees. The fact that the funds required amount to an increase of more than 10% in equity suggest that this could be a suitable time to make a rights issue. The shareholders will need to appreciate that this is a significant strategic investment in the company and that the costs associated with implementation are justified.

The details to be made available to the shareholders will have to be decided. The documentation accompanying the issue will have to set out the background and the plans for investment, but the Board can always choose to volunteer more. The greater the disclosure, the more confident the shareholders. Unfortunately, that might also give the company's competition additional information that can be used against it.

The pricing of the issue will have to be decided. That will have to be less than the market price at the issue date, otherwise the shareholders will have no reason to take up their rights. Too small a discount will increase the risk of an adverse movement in the share price that might cause the issue to fail. Too large a discount could discourage the shareholders because of the psychological impact of the dilution to the share price, even though the dilution should not affect shareholder wealth.

The question of underwriting will have to be considered. The question is whether to insure the success of the issue by paying an underwriter to bear the risk of any failure. The alternative would be to proceed without an underwriter, in which case there would be a saving in fees but some or even all of the shares could go unsold. Apart from the insurance aspect, the underwriter's expertise could be useful in setting a strategy for the issue. Unfortunately, it will also be expensive.

Section 3

Requirement 1 – Ethical implications

It would be very difficult to permit this audit investigation without breaching the fundamental principle of confidentiality, which requires KCTP to respect the confidentiality of all the tenants who are using this service. It would be difficult for the audit team to have a meaningful level of access to the system and its operations without there being some access to data belonging to the other clients. The only way to overcome this ethical breach would be to seek the permission of the other users of the service. There would be no breach if they agreed. Seeking permission could, however, create conflict because there is every possibility that other tenants are in competition or have some other commercial relationship with those belonging to the University.

This would also involve a breach of professional behaviour, which requires compliance with relevant regulations. The terms on which the service will be provided will almost certainly state that the only third-party access will be an external auditor who is wholly independent of all tenants. Permitting the University's staff to access the system would be a direct breach of that rule. If KCTP are unwilling to adhere to this rule then they should not incorporate it into their terms and conditions, although that may lead to queries and a refusal to sign a contract.

The concept of integrity requires KCTP to be straightforward and honest. In this case, the proposed justification for breaching the contract is a clear breach of that principle. KCTP appears to be justifying a breach of confidentiality on the grounds that the internal auditors can be trusted. It is not really acceptable for KCTP to argue that it can justify a breach of privacy by arguing that it trusts the third party granted unauthorised access not to repeat anything. The internal auditors may also find themselves conflicted in the event that they discover something of commercial value to the University.

There is also a breach of objectivity, which suggests that KCTP should not permit undue influence. The service that is being offered depends largely on the adherence of all parties to agreed rules. If one potential user is unhappy with those rules, then KCTP should recommend that it attempts to find a more suitable service from a different provider. This is a straightforward case in which the University must either withdraw its demand or withdraw from negotiations with KCTP. There are no acceptable alternatives.

Requirement 2 –Part-time executive director

It could be argued that Bill McDougall's background as an IT specialist would make him an ideal person to oversee the new data centre. While that would be an additional responsibility, on top of a significant workload, Bill is already responsible for IT and all that is really happening is that one data centre is being replaced by another. Any new appointment could be viewed as creating the potential for conflict with Bill and so it would be necessary to define both directors'

duties very carefully. It would be unfortunate if Bill regarded this proposal as an implied criticism of his ability to manage the new venture.

Having the new director based at the data centre could encourage unnecessary interference in the local management at that site. There should be an efficient and effective management team who will take charge of the ongoing management of the data centre. They might find it distracting to have a Board member overseeing them and they may become demotivated. If there is to be a new director of IT, then that person should be encouraged to keep some distance from operations and to focus on strategic decision making.

Basing the new director in Coastland would create a physical distance between the appointee and the Board, which could cause a very negative signal. Even though it is possible to use video conferencing and similar technologies to keep in touch, there is a problem associated with establishing a newly appointed director at a remote site. It could lead to a lack of effective governance at the data centre, effectively splitting it from the technology park itself. The new director does not have an effective working relationship with the remainder of the Board and the other directors may be reluctant to get too involved in managing the data centre because they do not wish to undermine the new appointee.

Establishing the new role on a part-time basis could cause dysfunctional behaviour on the part of the new appointee. The new director might perceive the part-time appointment as a sign that it is necessary to create the need for a full-time position in order to progress. That could further create pressure to interfere and to provoke issues in order to justify a full-time role. If anything, there is more likely to be a need for a full-time IT director while the new data centre is being designed and constructed, with the possibility of that becoming a part-time responsibility once the centre is operational.

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Variant 3

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SECTION 1

Requirement 1 – Scenario planning

Effective scenario planning requires the ability to identify high-impact/high-uncertainty factors that might be of interest. In this case, KCTP would have to be capable of identifying possibilities that might be created by the acquisition of Lec, such as the emergence of a local market demand for industrial space. It might not require scenario planning to evaluate local demand because Moxopark has been operating as an industrial park from that location for quite some time and so there will be relevant historical data for occupancy rates and rental revenues. Scenario planning might only be worth considering if KCTP believes that there could be some disruption to that market in the near future.

There is, of course, no real need for Lec to be kept as an industrial estate and so it would be worth developing a scenario in which KCTP might attract significant numbers of new technology park tenants, who could be accommodated on the Lec site. KCTP could evaluate the factors that drive demand for spaces, such as the emergence of successful research groups at nearby universities. The question here is not necessarily to forecast demand for additional technology park space, rather it is to evaluate the possibility that significant demand could arise. KCTP could consider the likelihood that there will be an upswing in demand and if that seems remote then the scenario is not really relevant.

The most immediate question that KCTP should be asking is whether there are any realistic upside scenarios that ought to be explored. It is to be hoped that the units owned by Lec are presently occupied by electronics manufacturers and so there is a relatively straightforward scenario that KCTP might be able to encourage synergies between technology park tenants and industrial park

manufacturers. In the longer term, synergies could help tenants from both sides to remain at the expanded KCTP park and to prosper. The possibility of synergy could be evaluated by seeking meetings with existing tenants and exploring the possibilities of collaboration, which would be both relatively low-cost scenario planning and potentially reliable.

KCTP should consider the potential demand for biotechnology tenants in the event that it acquires Lec. It is an important issue because the industrial park is already well established as a suitable site for electronics manufacture, and so it may be worth continuing to encourage that and possibly even investing to encourage that concentration. Scenario planning might be useful to decide whether any of the buildings ought to be converted to suit them to other purposes, including biotechnology. There may be forecasts and projections available that would give an insight into potential demand for additional production capacity in that sector.

Scenario planning could be combined with other strategic models such as PEST to give an insight into the likely outcome of taking up this offer. This is likely to be a significant investment that could have a significant downside. Therefore, KCTP needs to be able to decide whether to better understand the risks associated with this acquisition by inputting different assumptions concerning factors such as rents and demand for tenancies. Ideally, such analysis would give a better understanding of the robustness of the model, by highlighting the factors that have an impact on the overall performance. Understanding both the upside and downside risks within the company's overall strategy will help the Board to be confident in their final decision.

Requirement 2 – Factors for consideration

KCTP would have to estimate the cost of acquisition as an initial reality check. There is no point in entering into discussions if the likely cost is unaffordable. That would simply waste time and possibly damage the Board's credibility. An initial price would also help the Board consider the possibility that this would be a positive NPV investment.

KCTP's Board should request the latest financial statements for Lec. The fact that it is a separate entity within the Moxopark Group means that it will have its own financial records and should be preparing its own audited financial statements. It will be helpful to know the revenues and operating expenses for the industrial park in its present condition, so that KCTP can develop its own estimates of future performance.

The physical condition of the property is a crucial factor. If KCTP would have to make significant repairs or refurbishments, then it would add to the total cost of the investment as well as delaying any change of purpose to the industrial park. Apart from structural issues, KCTP will have to consider whether it would be necessary to redecorate the exteriors of the buildings to create a consistent appearance with those on the technology park.

The remaining terms on any rentals and the basis on which those rental agreements can be discontinued will have to be considered because KCTP might not necessarily wish to remain with the existing tenants in some or even all of the buildings. KCTP's lawyers should be given the opportunity to review any leases or tenancy agreements in order to determine the timescale for any plans to redevelop or modernise the site. That review should also determine whether any compensation will have to be paid for breaking the rental agreement.

The availability of alternative sites for purchase and/or development should be considered. The fact that the Lec site is adjacent to KCTP's present technology park may offer some advantages, but there could be other possible sites that offer better value for money. Electronic communications mean that designers and manufacturers do not have to be located close to one another.

Section 2

Requirement 1 – Suitability, acceptability and feasibility

This appears to be a suitable proposal in the sense that it could be viewed as drawing upon KCTP's strengths and experience. The company has succeeded in providing a base for growing technology companies who require suitable facilities for the creation of new products, based on research findings. There is little real difference between the development of a product and the development of the industrial processes required to create that product.

It could be argued that a manufacturing centre of excellence will not necessarily draw on KCTP's past focus on technology and development. Once a factory has been established then there may not be a great deal of need for ongoing development. It may be more appropriate to encourage tenants to work on the development of improved and more advanced manufacturing techniques at KCTP's industrial park, with implementation elsewhere.

In terms of acceptability, the biggest challenge may be in establishing whether there would be a demand for such a centre of excellence. KCTP could be disappointed if it plans to encourage technology park tenants to manufacture their newly developed products on the former Lec site. It does not necessarily follow that an advanced and innovative product requires advanced and innovative manufacturing techniques.

The wider business community may not be particularly interested in making use of the new industrial park because many companies aim to make incremental changes in their existing factories. New processes developed at the industrial park that are significantly different from current techniques may be difficult and expensive to implement. Bill's proposed venture does not necessarily offer specific directions for tenants to pursue. Potential tenants are being offered a space that they are free to adapt for the sake of innovation, which might not be a particularly attractive selling proposition.

The feasibility of the proposal is affected by the scale of the site and the buildings on offer. The present tenants clearly find the units to be satisfactory for their needs, but that does not necessarily mean that the new industrial park will be an appropriate base for its proposed mission. The buildings may be too small for mass production and so many manufacturers will be discouraged from considering them.

Feasibility could also be limited by the fact that the present site was designed and built with a particular approach to the manufacture of electronic items in mind. Bill's proposal could require a completely different configuration to permit the latest technologies to be tried and tested. It would be necessary to conduct a detailed investigation of the manufacturing techniques that might be of interest to tenants along with the nature of the accommodation and infrastructure that they require before proceeding.

Requirement 2 – Rights issue

This is a massive issue, which will double the market capitalisation. It will be difficult to encourage stakeholders to put their funds at risk, either as shareholders or as underwriters. An issue of this size could easily fail if the stock market has even slight doubts about the likely success of the venture. If there are concerns that the issue will not be taken up, then underwriters could be extremely nervous about underpinning it.

It will not be easy to persuade the markets that buying the Lec site will be a successful investment, but the Board should provide as many positive signals as possible. Releasing information would be one way forward, because the better the understanding the more confident the markets will be. There is no particular downside to the release of information in this case, provided Lec's present owners have no objections, because this is a very specific opportunity that could not really be interfered with by competitors. It would be ideal if the Board could send further signals that demonstrate their personal confidence, such as replacing salary with performance related bonus or through buying shares with their own funds.

Setting the issue price will also prove difficult because it is difficult to tell how the market will respond. Setting the price a little lower than the present market price will demonstrate confidence, but it could leave KCTP in an impossible position if the share price falls below the issue price. A larger discount will reduce the risk of such disasters, but it will also lead to a significant dilution of the earnings per share ratio. Shareholders may misinterpret the significance of that change, which could lead to disposals and other problems, such as complaints.

KCTP's Board should start by ensuring that Capital City University is properly briefed, making sure that Helga Kress understands the implications. A public announcement from this major investor will help to maintain market confidence. A large discount will reduce the risk of the market price falling to less than the issue price and so should reduce the underwriting costs. The Board should bear in mind that the discount itself should not have any real impact on shareholder wealth, a fact that will be understood by institutional investors. Short-term speculative losses and ill-informed complaints should be expected to resolve themselves as the issue progresses.

Section 3

Requirement 1 – Vision and Mission

KCTP's vision and mission are both concerned with developing technology for business purposes. There is little real difference between the development of a product and the development of the industrial processes required to create that product. It could even be argued that the technology parks previous tenants could have included entities that were involved in the development of hardware or software that were intended for manufacturing purposes and that no concerns would have been raised.

It could be argued that a manufacturing centre of excellence will not fit quite as well with the mission as the existing technology park. Once a factory has been established then there may not be a great deal of need for ongoing development. It may be more appropriate to encourage tenants to work on the development of improved and more advanced manufacturing techniques at KCTP's industrial park, with implementation elsewhere.

The intention behind documenting and publishing corporate mission and vision statements, is to summarise the company's basic objectives. That assists internal and external stakeholders to understand KCTP's purpose. If the company does not adhere to its mission and vision statements, then there may be some confusion in dealing with stakeholders because of that inconsistency. That would not be a major problem because stakeholders are more likely to be guided by any direct communications than by a mission statement. For example, a potential tenant who was discussing the rental of a factory unit would base that discussion on documents such as correspondence and the draft tenancy agreement.

It is not particularly logical to argue that opportunities should be rejected simply because they are inconsistent with the mission statement. The mission statement is really intended to describe strategy rather than determine it. There is no reason to permit the mission statement to restrict or constrain KCTP. If the industrial park is a good investment, then the company should proceed with it. The mission statement itself can be revised and reissued, which might help the Board to communicate the logic of any change of direction and so enhance its credibility.

Requirement 2 – Additional directors

The Board has a collective responsibility for the strategic management of KCTP. It is sufficient that there are enough directors to fulfil the obligation and that the Board has all of the necessary skills. The actual implementation of strategy is delegated to managers at lower levels and so it does not necessarily require a doubling of the Board just because the company is twice as large. Presumably, the workforce, including the management team, will be acquired along with the company itself. The managers will be able to advise KCTP's Board on the ongoing running and management of the company and should be able to take instruction and to implement any new strategies that the Board decides. It

should be sufficient to keep the Board as it is, unless it is felt that there is a need for an executive director with manufacturing experience in order to complete the Board's skill set.

The fact that Helga is a non-executive director gives her a specific responsibility to monitor and comment on the performance and capability of the Board. It is perfectly acceptable for her to raise concerns of this nature. She should report them to the non-executive chair. Her concerns should be addressed by KCTP's nomination committee, of which she is a member.

It is possible that expanding the board would have some upsides. For example, Bill has a wide-ranging remit and he may have too many duties to discharge all of them properly. It may be desirable to recruit additional directors in order to ensure that all strategic issues receive the attention that they require. Each additional director will also contribute different skills and other benefits such as a range of personal contacts.

Requirement 3 – Resource audit

The Board should consider whether Lec has the necessary physical infrastructure to meet its needs as a high-tech industrial park. It will be both costly and disruptive to upgrade features such as the electrical supplies around the park and the data connections. If any major upgrades will be required, then KCTP will have to ensure that it can obtain the necessary resources to complete any such work quickly and effectively.

The ability to retain key staff after the acquisition is also a factor. Lec's site and properties will require ongoing care and maintenance and so of the work will be skilled. Ideally, the staff will remain with the company so that the best possible use can be made of their understanding of the infrastructure and the problem areas, such as causes of frequent breakdowns. The question of staff retention should be considered in terms of the agreement with Moxopark.

Demand for manufacturing space of that size and quality is a key resource. There is no point in acquiring Lec if KCTP cannot be confident of finding suitable tenants to occupy the new space. The acquisition is likely to lead to a change of Lec's position in the industrial park sector and so it is not sufficient to review historical occupancy rates. The Board will have to check that there is at least a potential demand for space on this site, otherwise it would be extremely risky to proceed.

The compatibility between Lec's culture and that of KCTP is a key resource that has to be considered. KCTP has a policy of providing its tenants with secure and adaptable development space that is well supported by a strong infrastructure. If Lec's culture is inconsistent with that then there could be difficulties in providing a consistent standard of service across the group as a whole, which could lead to reputational damage.

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EXAM ANSWERS

Variant 4

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SECTION 1

Requirement 1 – Scenario planning

Scenario planning involves the study of issues that will be high-impact and high uncertainty, if they occur at all. In this case, the issue is the possibility that there could be a significant demand for workspace at KCTP because of an expansion in the PocketQube satellite business. The fact that Capital City is emerging as a suitable location for this new technology could suggest that new entrants could seek to locate at existing technology parks, including KCTP. The company's proximity to the airport and to various major universities might make it an attractive venue within the city.

KCTP should consider the potential to attract a significant number of companies to its campus. It does have a number of possible attractions that it could offer. Its buildings are adaptable and well served with key resources, particularly clean electrical connections and good data connections. Scenario planning could be combined with a strategic analysis of KCTP's position in relation to this industry. The key question to establish is the risk that KCTP might have to take in order to attract tenants from this background. In the short term, KCTP might have to invest some management time and effort, but there would be no direct cost associated with developing links to this industry.

KCTP should consider the possibility that this could prove a very short-lived industry if there are any major calamities. PocketQubes may be relatively inexpensive compared to conventional, full-scale satellites, but they are a relatively unproven technology. It would only take a few failed launches to affect a relatively large number of stakeholders and to threaten the perceived viability of this approach to space. If KCTP devotes a significant proportion of its workspaces to satellites, then it could find itself heavily exposed to a sudden downturn.

One scenario that ought to be explored is the possibility that the satellite industry might create its own separate space within Capital City. It would only take a few of the entrants to this business to establish themselves near to one another to encourage potential service providers to seek to establish themselves nearby. That scenario should be investigated as a matter of priority because it could lead to any space set aside by KCTP remaining unoccupied because entrants are keen to locate elsewhere. That could also lead to any tenants who arrive in the first wave of expansion deciding to quit KCTP as soon as their tenancy agreement expires.

KCTP should also develop scenarios relating to its existing tenant base. Discouraging tenants from renewing their leases could cause reputational damage in the longer term. For example, potential future tenants be discouraged from locating at KCTP if past tenants have suffered a bad experience while there. KCTP should evaluate the likely pattern of vacancies that are likely to materialise in the short term in order to estimate the capacity to accommodate new tenants without actively asking existing tenants to leave. If tenancies are turning over slowly then there would be a financial risk, in terms of the opportunity cost of rental income, if existing tenants are moved out and replacements cannot be secured.

Requirement 2 – Acceptability

There is no effective way to seek direct feedback or opinions from the shareholders with regard to any proposals. Even if KCTP's Board wished to seek the shareholders' opinions on this one matter, it might create the impression that the directors are indecisive and so should not be trusted to manage the company. There could also be concerns that seeking permission to proceed on this occasion will raise unrealistic expectations that the Board will contact the shareholders at other times.

In this case, it would be worth seeking advice from Capital City University because they are major shareholders with an interest in science and technology. Their opinion could be of interest because it might give the Board a useful perspective on the satellite industry. The University has a non-executive director on the Board to take care of its interests and the Board could raise this with her.

Even after the implementation of any new strategy, the shareholders cannot really offer a collective opinion about any specific issue. The overall opinion is summed up by the share price, which reflects the capital market's opinion of the present value of future cash flows. Unfortunately, the share price can be affected by many different factors and so it is not always certain that an increase in the price indicates that any particular event was perceived as good news.

If the directors decide to proceed with the decision to focus on the satellite industry, then they might issue a press release to keep the markets informed. Hopefully, that would make it easier to interpret the market's reaction because KCTP did not release any other information that day. The Board would,

however, have to take care to determine whether there had been any other economic or other events that might have occurred at the time of the press release.

Section 2

Requirement 1 – Relevance of findings

Increasing revenue will increase future net operating cash flows and profits. Those revenues are rental income from buildings and workspaces that we would be renting out anyway, so the analyst seems to be implying that we can charge more for rent if we focus on this industry. Increased revenues will not be offset by increased cost because KCTP leaves tenants to fit out and adapt spaces at the beginning of their occupancy, although KCTP should be alert to any additional operating costs that will be incurred because of this venture.

The increased cashflows will make it possible to pay more dividends. Shareholders will also evaluate the performance of the Board in terms of profitability. This will create upward pressure on the share price when the decision to move into this more profitable sector becomes known.

The increased beta implies that KCTP's volatility with respect to the stock market will increase. The beta is currently less than 1.00, which means that the stock is relatively low risk when considered as part of a diversified portfolio. Increasing the beta will make this a riskier investment. Increasing beta will make the investment riskier, imposing downward pressure on KCTP's share price.

The increased beta will increase the cost of equity, which may discourage the Board from seeking additional equity for expansion. The additional risk as an investment may not be a problem overall because the enhanced future cash flows and the increased beta will be pushing the share price in opposite directions. In practice, the impact of KCTP's systematic risk will be combined with its specific risk in terms of day-to-day performance.

Requirement 2 – Internal audit

KCTP's Board is ultimately responsible for the company's management and the protection of its assets. In order to discharge that responsibility, they set out internal control procedures. If the Board does not take steps to ensure compliance, there is a risk that controls will not be complied with and so the Board could be held responsible for losses due to carelessness or dishonesty. The Internal Audit Department exists to assure the Board that controls are operating correctly and does so by conducting regular investigations.

Internal audit resources should be managed to ensure that audit work is efficient and effective, but those plans should allow for some flexibility to permit Internal Audit to respond to emerging compliance risks. In this case, the fact that the Marketing staff have been overlooking important credit checks would imply that an audit of that department's operations should be conducted urgently. The fact that the Marketing Manager offered a reason for the omission is actually a concern because nothing can excuse a deliberate breach of internal controls and so the manager's attitude is worrying.

In this case, it seems that the Marketing Department may have been confused by its belief that the Director of Operations wished them to install new tenants as

quickly as possible. That would be a further incentive to conduct a thorough audit; partly because it would send a very clear message to the company as a whole that the rules are necessary and should be complied with at all times. It could also provide an effective reminder that all directors should encourage compliance with the system of internal controls and that directors cannot prevent the investigation of any compliance failures.

The Board should attach some priority to this internal audit investigation in case there has been some deliberate misbehaviour by Marketing. For example, the Marketing Department may be tempted to omit background checks in order to minimise the risk of losing a potential tenant. The Marketing Department could view this new venture as an opportunity to improve its performance measures, such as occupancy rates; and so it could have an interest in encouraging satellite companies to locate themselves at KCTP, even if they have weak credit histories. An internal audit investigation of that possibility would send a very clear message to all departments that the Board is not willing to permit dysfunctional behaviour.

Requirement 3 – Additional non-executive director

The key role of non-executive directors is to provide oversight of the executive directors and the manner in which they are demonstrating good governance. It would normally be deemed unacceptable for an independent non-executive director to have a commercial responsibility for management. The new appointment would be in a very difficult position, with the possibility of a conflict of interest between oversight and maximising revenues.

As a compromise, it might be acceptable to have an additional non-executive director who was specifically not independent. Non-executive directors have traditionally had wider responsibilities than oversight of governance, including the provision of advice on specific areas in which they are experienced and through the provision of introductions to contacts. KCTP has already established the value of having such an appointment through the appointment of Professor Kress as a non-executive director with a specific remit.

Having a Board member with a suitable background and understanding of the satellite industry could be helpful in terms of informing the Board of the best ways to make KCTP attractive to suitable tenants. The appointment could also be of value in demonstrating KCTP's commitment to the industry when negotiating with potential tenants. Holding a non-executive position would give the director greater freedom to speak freely because they would not have any managerial authority and could only ever offer the Board advice.

KCTP's Nominations Committee should meet to discuss the skills and contacts that the present Board members can apply to managing the opportunities arising from this new industry. Having a director with specific responsibility for seeking tenants from a particular industry could prove divisive, even if that director is non-executive. It could be preferable to leave the Board unchanged, but to appoint a consultancy firm or even a new management team to assist in the exploitation of this potential market.

Section 3

Requirement 1 – Currency exposure

KCTP has no translation exposure because all of its assets are located in Advland and are accounted for in A\$. The company has no foreign subsidiaries (if it had there would be a currency reserve in its consolidated financial statements). Thus, there will be no translation gains or losses in response to currency movements.

KCTP also has no transaction exposure because it generates rentals from tenants based in Advland and bills them in A\$. Presumably, the fact that it operates a technology park means that most, if not all, of its costs will also be in A\$. Therefore, there is no reason for there to be any payables or receivables that will change value in response to movements between A\$ and V\$.

Unfortunately, KCTP will have a possible economic exposure if it focusses heavily on the PocketQube business. The exposure will arise because of the possible impact that currency movements might have on its tenants' costs and revenues. If tenants incur costs in A\$, but their ultimate customers insist on being invoiced for complete satellites in V\$, then any strengthening of the A\$ could harm tenants' profits. If tenants run into financial difficulty, then they may struggle to meet their commitments to pay rents and could even close, leaving KCTP with vacancies.

The tenants who are at the greatest immediate risk will be those who are earning revenues in V\$, while incurring costs in A\$ because they are at greatest risk of losing business through currency movements. Those businesses will suffer direct transaction gains and losses because selling prices will be fixed by contractual terms. KCTP could aim to include at least a proportion of tenants whose role is to serve and support other satellite companies that operate exclusively within Advland. For example, a company could fabricate parts for another business that assembles the parts into larger products. Those companies would still be affected if their customers lost business because of a strong A\$, but they would be isolated from currency problems to a certain extent because they would not be trading directly in V\$.

It would be ideal if KCTP could also create a situation in which it benefitted from a strong A\$, which would offset losses incurred when tenants lost revenue. One possibility would be to refinance existing loans or even seek fresh finance denominated in V\$. That would have the effect of reducing the cost of debt when the A\$ is strong, which would help KCTP to support tenants who were struggling. Arranging those borrowings in fixed rate debt would further help with this hedge.

Requirement 2 – Risk register

The risk register is an internal document that is used by an entity to ensure that risks are recorded and understood. Each risk is described in terms of both impact and likelihood and a plan for mitigating the risk is also noted. Designated managers are made responsible for the risks and so there is no excuse for a risk

being forgotten or overlooked. The mitigation also provides a contingency plan that should enable action to be taken promptly in the event of an adverse occurrence associated with that risk.

The risk register should reflect the fact that focussing on a single industry concentrates the risk of there being several vacant workspaces. KCTP might benefit from synergies, but any downturn in the industry as a whole could lead to companies closing down and leaving vacant widespread failures. KCTP should have a designated director and management team whose responsibilities would include maintaining an overview of the industry and reporting any concerns to the Board. The register should also indicate which buildings, if any, have been modified in such a way that it would be difficult to use them for any other purpose, in the case that new tenants must be sought.

In the event of a serious downturn, KCTP could find itself with a significant loss due to bad debts. Focussing on a single industry means that KCTP does not have the same degree of diversification with regard to the solvency of its tenants. That risk can be mitigated through good credit management, with any overdue payments being followed up and payment requested. The risk can also be managed by following the industry closely, with KCTP's management checking that tenants are making realistic plans for dealing with any loss of business.

An undue focus on the satellite industry could lead to tenants from other backgrounds feeling that they have to leave or potential tenants feeling that they would not be welcome. That could lead to difficulties in filling any vacancies if there are no satellite companies needing workspace at those times. KCTP should maintain a regular dialogue with each of its tenants and should stress that each is welcome. Vacant units should be advertised and promoted to all potential applicants and Marketing staff should make it clear that all are welcome.

If KCTP's tenants are all from the same industry, then they may be trading with one another. Indeed, that would be one of the attractions of creating that concentration. The problem is that a single adverse event could affect more than one tenant and that could have a further impact on KCTP as a whole. For example, a prolonged power outage or interruption of data services could lead to an accumulation of delays that might lead to a reputational loss for KCTP as a whole. The risk could be mitigated by identifying the events that could have an impact on campus infrastructure and developing responses that might minimise those risks. Ideally, there should be backup facilities and contingency plans that would minimise any problems, provided it is cost-effective to do so.

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EXAM ANSWERS

Variant 5

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Section 1

Requirement 1 – Scenario planning

KCTP is in a position to attract a high-profile tenant in the form of a foreign university, who seems intent on making a firm commitment. This could have a significant impact on KCTP's future revenues. UoE will have a significant incentive to make a success of this venture because of the investment in hardware and the costs associated with hiring local staff. The relocation of senior research staff will also involve a significant investment in terms of relocation costs and ongoing staff availability at the University's home base. These are all signals that there is a potential high-impact upside risk associated with encouraging UoE to take up this offer.

KCTP should evaluate the scenario in which UoE's request for a discount on its rent leads to further requests from other tenants. UoE could provide this information to other potential tenants whom it wishes to encourage to locate alongside it at KCTP. It is also possible that UoE will seek additional space and will request additional discounts on the grounds that the first space was discounted. KCTP will have to consider whether the costs associated with granting a discount will be justified by future revenues from other sources, including the possibility that UoE's tenancy will be extended for several years. There is a significant positive outcome that should be studied and evaluated. Most of KCTP's previous tenants have been business start-ups who have been seeking relatively short-term rentals and relatively modest facilities. The approach from UoE creates the possibility of larger and more prestigious tenants, whose needs are in the long term and who may be prepared to pay more in order to be based alongside UoE. UoE is creating the possibility of KCTP becoming a genuine centre of excellence for research. There could be significant scope for increased revenues and even expansion on the basis of this development.

The possibility of becoming involved in quantum computing is a significant opportunity and KCTP should evaluate the various scenarios that could emerge in this new industry. This is a potentially huge new industry that is still at an experimental stage. If UoE can make some significant progress then it could expand its present at KCTP and might be prepared to make significant investment in the process. There could be further indirect commercial benefits. These can include positive news stories from UoE, leading to press and television interviews with UoE's senior staff, with the KCTP campus in the background of photographs and footage. There is obviously a great deal of upside potential in the association with this activity.

One significant scenario that will have to be investigated and evaluated in depth is the extent to which the infrastructure can cope with the additional requirements that will be imposed by this new technology. The hardware and software used by UoE may put a much greater strain on electricity supplies and data links than those connections were designed to cope with. The fact that this is a new technology means that the hardware required to develop these new computers is still at an early stage of development and the final specifications have still to be determined. KCTP will either have to allow for the need to extend its provision or have a contractual agreement that UoE will vacate in the event that there is insufficient capacity.

Requirement 2 – Political risks

Advland's government could be hostile to this development because its motivation could be interpreted as harmful to the Advlandian economy. The stated intention is to create a research centre in a relatively modest building located on a relatively modest technology park. The site of this operation seems to be the proximity to Capital City University and other leading technological research centres in Advland. This could suggest that the intention is to gather scientific and commercial intelligence that could help UoE's efforts in developing quantum computing. Advland's government could be reluctant to permit UoE permission to locate in the country and might refuse to grant its research staff work permits.

Foreign direct investment is often welcomed by governments because it can create wealth for the host country, but it is debateable whether this venture will create significant wealth for Advland. That could increase the political risks. There will be jobs, but only a few of those will be for research staff. The majority will be for technical and support staff, who may simply be displaced from whatever employment opportunities would have been created at KCTP in any case. Apart from wages, the only inputs to the Advland economy will be in the form of rent and any other operating costs that UoE incurs. There will be no production, so there are unlikely to be any taxable profits.

Capital City University might be concerned that UoE's venture is an attempt to recruit its leading research staff in the area of quantum computing, so that UoE benefits from their expertise. KCTP was founded by Capital City University and its location is deliberately convenient for the University's staff to

be able to work with businesses on the technology park. Capital City University might make a formal objection to the government; to the effect that UoE could be actively recruiting senior researchers to relocate to UoE and so put Advland at a disadvantage. The political risks are potentially significant because any such complaint would be difficult to defend.

It may be that UoE has identified these political risks for itself and regards them as severe. The fact that it is seeking the backing of KCTP could grant it some support in any dealings with Advland's government.

Section 2

Requirement 1 – Cyber risks

This proposal will cost KCTP the ability to design and oversee the operation of its own IT system. It will become totally reliant on the goodwill and integrity of a third party for the ongoing maintenance and management of the IT infrastructure. That is a significant issue for a technology park because its tenants depend heavily on the availability of a suitable and reliable IT service. There is every possibility that UoE will leave KCTP at some point and therefore leave the IT system unsupported.

The extent of the upgrade is sufficient to create concerns about a serious and extended breakdown in availability. The replacement of cabling and the upgrading of server capacity are desirable, but there could be a breakdown in the provision of service. UoE is only just becoming established on the campus and the operation at KCTP is really just an extension of the main effort back home in UoE. Therefore, it will not have the same degree of interest in maintaining service for other clients. KCTP will remain liable for any breakdown because the provision of data services is part of the tenancy agreement.

KCTP's tenants will be at risk of a serious security breach of data if this proposal is accepted. The IT staff at UoE will have access to their data streams and their files on the servers. Even though that data will undoubtedly be encrypted, there could be threats to security. The lack of physical security will be a concern. As time passes, the capability of quantum computing will make it a relatively simple matter to decode conventional encryption. The fact that UoE is offering to bear the cost of the upgrade and to grant other tenants free access, gives the impression that there is an ulterior motive for this request.

The fact that UoE is working on a totally new branch of computer science could mean that its needs are significantly different from the more conventional systems used by the other tenants. KCTP could find itself in a situation in which data formats are inconsistent and so tenants will be unable to use the system for their purposes. The fact that UoE may have its own proprietary needs could lead to there being confidentiality issues relating to the standards on which the new system is based. That could make it even more difficult for tenants to obtain support and for KCTP to develop upgrades in the future.

Requirement 2 – Repurchase

The most significant implication of the repurchase is that it might send a signal to KCTP's shareholders that the directors have no worthwhile plans for expansion. It would be a much more positive signal if the Board announced that it planned to put the funds to a worthwhile use in a positive NPV project. That is not necessarily a serious issue for KCTP because the company occupies a designated campus area and so presumably has little immediate scope for expansion. It would probably be necessary to buy land at a separate site and create a second campus to put those funds to good use.

It is certainly preferable to distribute the cash rather than to retain a cash balance without having any need for it. The cash will generate little or no return, which will depress return on equity. A share repurchase will decrease both assets and equity and so the return on equity should increase. Excessive cash holdings also create the impression of poor management. This is because it implies that the Board is unwilling to impose sensible treasury management procedures and so finds it necessary to hold cash as a precaution against shortfalls. The shareholders will also be concerned that the Board is overlooking such an easy way to improve performance.

KCTP could create the same benefits by paying the A\$40 million as a dividend. The problem is that the shareholders' expectations could be increased with regard to future years and the share price might fall if they are disappointed. A share repurchase is clearly an unusual and non-recurring basis for returning surplus funds, and so the shareholders will not be expecting a further A\$40 million in a year's time. The circumstances surrounding the repurchase can be explained more clearly and so the Board's intentions will be better understood.

Making a large dividend payment would have the effect of reducing KCTP's share price because it would spread a smaller asset base over the same number of shares. A repurchase would reduce both assets and the number of shares and so the price per share would not be affected to the same extent. There could still be a decrease in the share price, but it will not be as significant as would be the case with a large dividend payment. The market capitalisation will decrease under a repurchase because of the outlay of the payment, but the key factor is that this will be accompanied by a decrease in the number of shares, which will divide the market capitalisation by a smaller denominator. Arguably, the preservation of the share price is only psychological, but it could still protect the directors from criticism and so reduce the risk of dysfunctional behaviour.

Section 3

Requirement 1 – Mission statement

The question of consistency with the mission statement hinges partly on the question of whether UoE is currently engaged in development. Even though there could be a real-world application in the long-term future, it could be argued that UoE is engaged in research that will eventually lead to a development project. The ongoing work could be viewed as development, despite the likely need for a lengthy commitment. The work done to date has already yielded some useful results, which suggests that UoE is making progress towards a working quantum computer.

KCTP's mission statement also stresses that it will offer an open, strategic platform for the development of innovation. That could mean that the work presently being undertaken fits well within the mission statement because this is a strategic endeavour for UoE. The fact that there is room for debate about the wording of the mission statement suggests that the proposal should not be rejected on the grounds of consistency because mission statements are often viewed as open-ended and potentially unclear. Given that it can be argued that the work with UoE is consistent with KCTP's mission statement, there should be no further debate about whether the opportunity should be rejected for that reason.

Regardless of whether the proposal is consistent, KCTP should consider whether this is a desirable direction to follow. The company has 15 buildings that are intended for sole occupancy. UoE will be occupying 20% of KCTP's capacity for sole occupancy buildings if it is permitted to proceed with this proposal. That would give UoE a great deal of influence over KCTP because it would then control a significant portion of total revenue and could use that to exert influence.

KCTP should also consider whether the prospect of a close relationship with a major tenant should be regarded as a strategic advantage or disadvantage. If the work being undertaken by UoE could run on for years, then KCTP will have a prolonged period of rental income from those buildings. It will also give companies who wish to work alongside UoE an incentive to locate on the campus by providing it with services and thereby creating further stability for KCTP.

Requirement 2 – Ethical duty

It could be argued that KCTP should demonstrate professional behaviour and should not behave in a manner that will discredit the company. That might suggest that it would be unacceptable to seek revenue from UoE, if it believes that a significant reason for UoE's interest is to cause harm to other tenants and stakeholders. It could, however, be argued that KCTP's concerns are based on suspicions that may be unfounded. Furthermore, UoE has a right to make competitive offers to key staff to encourage them to leave their existing jobs. The principle of integrity requires KCTP to act in a straightforward and dishonest manner, which would suggest that it would be unacceptable to profit from renting

out buildings to tenants who will harm other stakeholders. In this case, however, the principle is more likely to support the rental of the units to UoE because KCTP's principal duty is to maximise the wealth of its shareholders. It could be argued that it would be unacceptable for KCTP to refuse to rent a property to a potential tenant unless that would implicate KCTP in dishonest behaviour. If UoE expands and uses its larger base to recruit key staff, then it is really the responsibility of the existing employers to pay attention to the employment market and to ensure that they are offering competitive conditions.

The concept of objectivity requires KCTP to refrain from acting in a biased manner. KCTP has no specific duty to enable its existing stakeholders to retain staff. Refusing to rent spaces to UoE in case it embarks on an aggressive recruitment drive would be a breach of objectivity because KCTP would be ranking the interests of different stakeholders. KCTP should decide whether to allow UoE to expand on the basis of the revenue stream that it will receive.

Requirement 3 – Directors' salaries

The whole question of directors' remuneration should be left to the Remuneration Committee to resolve. It is legitimate for executive directors to argue that they should be better paid, but they should not have any say in the final decision as to whether that will be the case. KCTP's Remuneration Committee comprises non-executive directors, which ensures that there is no conflict of interest when they review remuneration packages for executives.

It may be that Board salaries should be increased because they are becoming uncompetitive. The Board may not have been particularly stretched before because the company might not require a great deal of strategic management. The arrival of UoE could have made their jobs more complex and challenging. The Remuneration Committee should compare salaries with comparable companies in order to establish whether rates should increase.

The remuneration packages awarded to the executive directors should encourage the strategic success of the company. Amongst other things, Board members should be sufficiently well paid to attract and retain suitably skilled and experienced people to fulfil those roles. Rewards should not, however, be excessive otherwise the shareholders will feel that the directors are behaving in a greedy and self-interested manner.

If the workload of the executive directors has increased significantly then the Nomination Committee should consider whether it is necessary to restructure the Board. If the directors cannot cope then there should be at least one additional appointment, whose responsibilities will create a logical job description but will also spread the load. Increasing salaries in response to rising workloads could lead to a situation in which the Board members are overstretched but they are unwilling to do anything about that because they are afraid that their salaries will be cut back to their previous levels.

STRATEGIC CASE STUDY
NOVEMBER 2020 & FEBRUARY 2021
EXAM ANSWERS

Variant 6

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

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

Section 1

Requirement 1 – Strategic relationship

From a strategic point of view, this incident underlines the importance of the services that KCTP provides to its tenants. They are generally at a transitional stage and are paying us to ensure that the infrastructure that they require is safe and efficient.

The attempted break-in highlights the potential vulnerability of KCTP's campus. It is unlikely that the site could ever be made completely secure because there will always be ways to defeat even the best-designed security system. The fact that the intruders were willing to go to the time and effort required to break into the campus and risk arrest indicates that KCTP's tenants have files and data that is worth intercepting. We are in the difficult position of having to protect tenants' data without necessarily understanding the value of that to criminals.

KCTP is in the difficult position of having to meet the needs of tenants who have a host of different needs, ranging from data security to secure electrical supplies. The tenants make heavy use of those facilities, as demonstrated by the fact that a tenant was on campus and working at 03.00hours. Our relationship with tenants is such that they will expect us to honour the commitments that we made but will take our services largely for granted unless something untoward happens. We are likely to be blamed for any disasters, such as a power cut or an unexpected data breach.

In the short term, KCTP can do very little other than to honour the commitments that it has made in its tenancy agreements. It would be unacceptable to attempt to impose a lower standard of service on a unilateral basis.

The Security Department should conduct an urgent investigation in order to establish how campus security was breached. That may require expert support if there is nothing obvious because it is unlikely that the intruders will

admit to having broken in and so will be unlikely to offer an explanation. If the breach can be explained, then Security should be asked to offer cost-effective recommendations to prevent a recurrence. The objective should be to ensure that a reasonable level of security is offered, bearing in mind that the intrusion occurred despite the presence of 24-hour security staff in the control room, CCTV coverage and at least two patrols in the grounds.

In the longer term, KCTP should consider whether it needs to make any changes with regard to managing tenants' expectations. Perhaps it should be made clearer that KCTP's high standard of service cannot guarantee that accidents or malicious damage cannot happen. For example, it is always possible that there will be a problem with the electricity supply on campus, even if the greatest care is taken to minimise problems. This could be made clear to tenants when they are renewing their tenancy agreements, at which time they will hopefully remain on campus, but with more realistic expectations.

Requirement 2 – Ethical implications

Waiting until more is known sounds self-interested on KCTP's part. If so, that would be a breach of the principle of objectivity, which forbids bias or conflict of interest to affect a decision. In this case, it is possible that nothing will ever be known about the motives of the intruders or the target of their breach. In that case, KCTP will never have to disclose details of the intrusion and can cite the excuse of waiting for information indefinitely.

The principle of integrity requires KCTP to be straightforward and honest. In this case, there is an urgent need to inform tenants of the possibility that the system has been compromised. Tenants could be unaware that their proprietary information has been accessed and possibly downloaded by an intruder, or that the system could have been compromised by malware. The tenants have a right to know that their data is at risk because there could be significant problems, including the risk of serious injury in the event that designs have been altered by an external party.

The principle of professional behaviour highlights the need to avoid being discredited. It is possible that the intruders will be tried in the criminal courts, which could then result in the intrusion becoming public knowledge. If tenants discover the truth from press coverage of the trial or from a delayed announcement by KCTP's management, then they will lack confidence.

The only possible justification for withholding information in the short term is that there could be a confidentiality issue. The intruders face criminal prosecution, and the police might wish details of the crime to remain confidential until it has been possible to interview the alleged victims of this crime.

Section 2

Requirement 1 – Acquisition

The provision of a cybersecurity service would be consistent with KCTP's mission because it is a key aspect of encouraging innovation. There would be no point in developing intellectual property if it was stored in an insecure environment. It would also enable tenants to focus on their development work rather than having to select and deploy their own IT security. The intrusion demonstrates that there is a need to establish effective electronic security, which is an area that might be overlooked by the start-up companies who are based at KCTP.

Having ITGard on site should enhance the quality of the IT security that KCTP can offer. In the event of any further attempted security breaches, it is to be hoped that ITGard's safeguards will prevent any further doubts about security. It will also be easier for KCTP to argue that everything that was reasonable was done to protect the tenants' data.

Some tenants might feel that this acquisition discourages them from continuing to base themselves at KCTP because the additional costs for cybersecurity will make KCTP a less attractive "strategic platform". KCTP already provides an efficient IT infrastructure that enables data services and that is supposed to be secure. Tenants might feel that a request for an additional fee to an inhouse cybersecurity company is unacceptable because the security of the campus connections should have been assured already.

It is debateable whether the acquisition is justified by the mission statement because it is unlikely that the campus network and the relatively small number of tenants will require the total commitment of ITGard's team. Furthermore, that team could quickly lose its edge if it is not being confronted by a variety of different challenges. It could be argued that it would be more cost-effective and more secure to offer ITGard a retainer to provide ongoing services, while continuing as an independent consultancy.

Some of the tenants may feel slightly nervous at the prospect of having a cybersecurity company onsite and having complete access to the network. The various software and computer science companies may feel that the presence of such security experts could compromise their security and confidentiality. Apart from mistrusting the security providers, tenants may feel that KCTP is becoming a dangerous place to conduct commercially sensitive research and so there could be a loss of tenants.

Requirement 2 – Purchase price

It is difficult to tell what KCTP will actually acquire in the event that it acquires ITGard. In the worst possible case, the professional staff will become unhappy and will resign, leaving ITGard without any ability to generate revenue. The only assets will be in the form of any hardware owned by the company and

the unexpired portions of any software licences, which may not be transferrable or refundable. The company's only meaningful value will be as a source of net cash revenues.

The historical information about ITGard's performance will be based on the business conducted by the company as an independent entity. Its value to KCTP will be different, which will require some thought about the cost savings and impact on revenues if the business is relocated to KCTP's campus and given access to its clients. ITGard's present owner may use those possibilities to argue that her company will have a high value to KCTP and so press for a high selling price. It will be difficult for us to be certain about future cash flows because it may, for example, be necessary to increase staff salaries in order to encourage the professional staff to stay.

The most appropriate starting point would be to obtain ITGard's past financial statements and to value the company on the basis of projected historical earnings multiplied by an appropriate price/earnings (P/E) ratio. That would give a value that was based on the company's continuation as a going concern, which would indicate the value to the present owner. There is little point in offering Dr Senarath less than the value of the company as it stands, otherwise there would be little point in her selling it to us. Ideally, the P/E used will be that of quoted cybersecurity companies. The earnings basis is superior because it allows for the use of historical figures that give an insight into what is actually being acquired.

KCTP should determine the maximum that it should pay in the same manner but adjusting the earnings figures to reflect the manner in which ITGard will operate. The easiest adjustments will relate to the cost base. If the rented premises are to be replaced by relocating on KCTP's campus, then there will be no external rental cost but there will be an opportunity cost of lost rent from the space that ITGard will occupy. Revenues will have to be adjusted to take account of chargeable hours that will be devoted to managing cybersecurity on KCTP's network. A realistic appraisal should be made of the possibility of lost revenue due to professional staff leaving the company.

Section 3

Requirement 1 – training

It could be argued that the threats faced by cybersecurity professionals are constantly evolving as criminals and hackers develop new techniques. Formal training programmes may not necessarily be the most efficient way to remain current because professionals require to keep their skills up to date on a constant basis. It may be more effective to read cybersecurity industry publications and to participate in online communities of professionals. It could be argued that ITGard's professionals are as capable and informed as the facilitators on formal training programmes and so they could learn little from attending.

There could be an argument that training is irreplaceable when looking at future developments that are about to reach the “cutting edge” of implementation. There would be value in attending courses that are designed and presented by experts to provide an insight into the cybersecurity issues arising from, say, major upgrades to operating systems or new forms of hardware. The courses can be developed by experts who have the time to study changes and to develop programmes that identify vulnerabilities and recommend responses. Clients do not wish security professionals to be informed entirely by past experience of problems that have already arisen.

Training programmes give professionals an opportunity to be exposed to ideas and issues that might be outside of their experience. They deliver value through the course content itself, but they also give the opportunity to interact with the facilitator and with the other delegates. It seems somewhat arrogant for Dr Senarath to argue that her professional staff have nothing to learn from training and so that will create a poor impression of her attitude. It could be argued that the reputational issues associated with ongoing training would be sufficient to justify participation.

Requirement 2 – Loss of Dr Senarath

There would undoubtedly be a significant reputational loss associated with the departure of Dr Senarath. Her past experience and vision for the company will be lost. There could be a further concern associated with the possibility that her former employees will consider leaving too, either to follow Dr Senarath or because they view her departure as a negative signal about their future with KCTP. Tenants and other potential tenants will have little confidence in a security consultancy that is suffering significant staff losses. It may prove difficult to recruit replacements, particularly to replace Dr Senarath, in the most senior roles.

Chloe could be overstating the risk of Dr Senarath actually resigning, bearing in mind that she has just sold her company to KCTP. It is to be expected that there will be a binding “non-compete” clause in our contract with her that would prevent her from establishing a new company that enters our market space. If she does resign then she may have to pursue other interests in areas other than cybersecurity or simply retire. She could face some reputational damage of her

own if it appears that she has behaved unethically with regard to her behaviour after selling her company.

It could be argued that the loss of Dr Senarath herself could be played down on the grounds that her present role would be largely supervisory. Her role has been to lead a relatively large group of professionals and so she is unlikely to be taking direct and personal charge of specific assignments. While it would be undesirable to lose her, the quality of the work will not be directly affected because she was not taking a personal interest in it. It may even be that a change of leadership will give ITGard some fresh ideas and improve performance.

Requirement 3 – Internal audit

If there is a process relating to training, then it would certainly be possible to ask internal audit to investigate compliance. The whole point of internal audit is to reassure the Board that controls are operating correctly, which also encourages staff to comply. Continuing training would be an ideal area for internal audit to check because senior management would not necessarily know which members of staff and which departments were engaged in training.

If this is an area that the Board has identified as important, then the convener of the audit committee has the authority to direct the Head of Internal Audit to conduct some testing. This is clearly a key area for KCTP, particularly if tenants are inclined to question the credibility of professional staff. This would, however, also redirect internal audit resources from planned audit work.

The role of internal audit would have to be restricted to checking that procedures are being complied with. It is not necessarily realistic for the Internal Audit Department to be capable of identifying the training needs of professionals from different backgrounds. There is a danger that an audit could lead to dysfunctional behaviour, with staff participating in training courses that have little value simply to establish that they have undertaken some training.

In some cases, the staff concerned will be subject to the ongoing rules and supervision provided by their own professional bodies. It may not always be necessary for employers to check that formal training is being undertaken because the employees themselves have to submit details of their professional development. The internal auditor could adapt any investigation to focus on staff whose needs are not addressed by any bodies that they belong to.

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 November 2020 and February 2021 were based on a pre-seen scenario which described Knowledge City Technology Park (KCTP) a quoted company that operates a technology park, the largest in its home country. The park is located close to the campus of a leading technological university, although the park is not directly affiliated with that university.

Technology parks (sometimes referred to as “science parks”) are essentially areas established for occupation by companies that wish to conduct scientific and/or technological research and development.

KCTP offers buildings or offices for rent, with tenants benefitting from the flexibility of being able to move to larger premises if their needs require more space. KCTP ensures that tenants enjoy some privacy for their research activities and can also collaborate with each other if desired.

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

- Variant 1: KCTP Board members have suggested different strategies in order to achieve greater occupancy rates for the buildings on their Technology Park.
- Variant 2: KCTP Board is considering a proposal to develop a cloud-based IT system and has decided to locate KCTP’s new data centre in Coastland.
- Variant 3: The Board is considering a proposal to acquire Moxopark Lec (Lec), an industrial park bordering KCTP’s site.
- Variant 4: KCTP Board is considering a proposal to establish the company as a centre of excellence for the design and construction of PocketQube satellites.
- Variant 5: The University of Eastland (“UoE”) has approached KCTP with a proposal that it will create a centre of excellence to study quantum computing on the KCTP campus.
- Variant 6: Discusses an incident at KCTP’s site in which intruders had tried to access a router carrying data on KCTP’s network.

Each of the six variants complied with the published blueprint and covered the core activities in the prescribed weightings. Each variant consisted of three sections and each of these sections was further subdivided into two or three separate tasks. The weighting attached to each task was stated and candidates were advised to allocate the time available for each task on the basis of those weightings. Markers were instructed to adopt a holistic approach to marking, which meant that the answer to each task was read and judged on its merits. Markers were provided with detailed marking guidance with the characteristics of level 1, level 2 and level 3 answers for each separate task. The total mark available for each task was split into three levels: level 1, level 2 and level 3. It was also possible to achieve a score of zero for a trait if there was no rewardable material.

As always, the key to achieving a passing mark or better is to answer the question as set. Higher marks are awarded to fuller answers that are relevant and correct. Candidates will be rewarded for discussing “models” only where relevant and applied to the case.

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

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

Comments on performance

Variant 1

Section 1

KCTP Board members have suggested different strategies to pursue in order to achieve greater occupancy rates for the buildings on their Technology Park.

The first task asked candidates to evaluate the strengths and weaknesses of pursuing a digital strategy. Less strong candidates were speculating that all buildings could be equipped with generic IT and could converse together. Stronger candidates went on to discuss that KCTP could have a specialist integration team which worked across the various tenants to bring greater expertise to those tenants than they would have themselves. Level 3 answers discussed the possibility of the specialist team bringing in the digital simulation possibilities suggested in the question. Those who did, generally had a good grasp of further potential to design, or actual building of prototypes in other specialist engineering buildings on campus.

Weaknesses were evaluated much more than application. Many level 1 answers pointed out generic possibilities for security breaches without and real insight as to what these might be. Level 2 answers discussed the need to provide secure separation of networks within the overall infrastructure of the campus and the need for service levels to be addressed within the total headroom of the infrastructure. Level 3 answers recognised the need for maintaining infrastructure at a high level of capability and availability, ensuring capacity was not exceeded by individual tenants putting a strain on the systems through having needs for extreme specialist environments.

The second task required candidates to evaluate the suitability of the proposal to allow the units to be used by any type of business.

Level 1 answers were able to highlight that the buildings infrastructure could easily be adapted to various uses. Stronger candidates highlighted the benefits of achieving a good business mix with tenants from related areas of industry teaming with design and first build prototyping and making use of the prestigious site to attract customers. Level 3 answers linked this through to a need to manage “Suitable” tenants, by inference or directly referencing types of activities which might be entirely unsuitable for the profile of the campus otherwise premium tenants might be lost.

Section 2

The first task of this section considered the potential impact of a significant minority shareholder, Capital City University (CCU), selling its 20% stake in KCTP. There was universal understanding that this was a bad thing for KCTP. Reference to efficient markets was not generally made but the effects of a sudden pulling out of a key founder sponsor were quite widely detailed and discussed. Level three answers highlighted the need for very careful messaging to persuade CCU to do a gradual sell off in order to maintain share price. Answers for the medium and long term spoke of recovery being largely dependent on KCTPs management of the situation and the outcome of any changes in policies applied.

Level 2 and 3 answers tended to be differentiated through their understanding of the importance of the strategic partnership of the University. The divestment indicating that the University no longer had faith in KCTP or indeed that something was significantly wrong and the shares are effectively over-priced. Level 3 answers discussed the need to re-engage with the University or find similar academic sponsorship elsewhere to take up the shares directly.

The next task related to explaining whether it was appropriate for Professor Kress to represent the University's position and interests during a board meeting.

Level 1 answers were able to identify Professor Kress's appointment as a result of CCU's interests. Level 2 answers were able to highlight the importance of her being able to bring discussion in real time, during Board meetings to address potential areas of conflict. Level 3 answers went on to demonstrate understanding of the need for her acting in a declared interest on behalf of the University, with the implications that all relevant proposals would be carried back to the University steering group with recommendations on responses.

Stronger answers recognised that Professor Kress was acting on the best interests of KCTP's shareholders in preserving and highlighting the KCTP mission and principles.

Section 3

Section 3 was split into three tasks and asked candidates to consider the implications of a proposal to create three University funded start-ups to occupy vacant buildings and workplaces for six months, after which time they would need to seek alternative funding. The first task was to consider the reputational risks of this proposal.

Level 1 answers quickly identified that academics straight out of University are unlikely to carry sufficient business acumen to make a success of a new business venture and there would be a high probability of failure immediately following that six-month period. Level 2 answers went on to discuss how rapid turnover of tenants would be detrimental to the Park in general; with level 3 answers being able to discuss the possible associations with experimental unfounded business and a general lack of commercial awareness of tenants. Level 3 answers went on to the wider extent of considering potential legal issues with copyright issues and staff made redundant and potential supplier or customer mismanagement.

Most level 1 answers did not expand on the initial six-month period, to consider and discuss the effects of possible lost loans and extensions granted to marginal business ventures on the campus. Level 3 answers however, considered the long term associated reputational risk on KCTP arising from having a technology park with many failed businesses. This had the potential implication of KCTP having not offered enough support and guidance to assist the academics to transition successfully into the commercial world.

The second task goes on to ask how this arrangement should be reported under Social and Relationship Capital in the integrated report.

On the whole this sub-task was answered well with reference to KCTP's mission and the promotion of providing funded opportunity for innovation to allow the monetising of academic research into start-up business. Level 3 answers highlighted related commercial sponsorship of PhD and research grants discussing this as a logical progression of that process.

Level 1 answers highlighted the availability of otherwise unoccupied buildings with level 2 answers building on this to show optimisation of facilities with the reports and highlight the strengthened bonds with the founder member, CCU. Level 3 answers considered opportunity cost in determining initial rentals following the first six-month period. This is with a view to demonstrating a thriving innovative community, with considerable potential for employment, recruitment and training rather than a 70% occupancy, barely successful Science Park.

The final task asks whether it is appropriate to use Internal Audit to investigate the lack of appropriate checks on the three new tenants.

Level 1 answers tended to give simple arguments either for or against using IA for this purpose, often only providing a one-sided argument. Level 2 responses tended to give points for and against, using evidence from the scenario. Level 3 responses usually made strong arguments on either or both sides and also considered the wider picture of implications of failure.

Variant 2

Comments on performance

Section 1

Section 1 explained that the KCTP Board is considering a proposal to develop a cloud-based IT system, which would be available to tenants for data processing and storage. The first task was to explain how digital transformation has changed the business needs of the typical tenants of KCTP, and also of KCTP itself.

Level 3 answers made comprehensive use of the pre-seen material; for example explaining how the growth of technologies such as simulation and 3D printing has reduced the need for engineering workshops, and that therefore it is likely that more of KCTP's tenants will choose in future to work online. Some strong answers linked their discussion to the cloud storage proposal, for example pointing out that the facility could be used to attract new tenants or make the technology park more attractive to existing ones. Better answers linked theoretical knowledge of digital technologies to the specific details of the technology park and its tenants.

Less strong responses explained digital technologies but did not apply this explanation to the specific assets and tenants of KCTP.

The second task was to explain, using two scenarios, how scenario planning could be used to evaluate whether KCTP should offer cloud-based processing and storage.

Level 3 responses gave clear explanations of scenario planning, and illustrated their points using two well-chosen scenarios. No so strong answers often outlined scenarios but did not expand the discussion to show how these might help KCTP to plan. Scenarios were sometimes limited to the "cloud-based IT system is a success, or the cloud-based IT is not a success", which was not sufficiently detailed to support discussion of how the technique could be used.

Section 2

Section 2 explained that the Board has decided to locate KCTP's new data centre in Coastland, renting premises and hiring local staff.

The first task was to explain the economic currency risks that will arise when operating a data centre in Coastland. Level 3 responses discussed the costs which would be likely to be in C\$, the potential impact of the actions of competitors, and the longer-term implications of currency movements. Not so strong answers explained transaction translation and economic risk, sometimes with a list of hedging techniques and how they can be used but did not apply this knowledge to the specific scenario presented in the case study.

Candidates were asked to explain the difficulties that KCTP may encounter when trying to demonstrate creditworthiness to Coastlandian banks. Level 3 responses identified that KCTP will not be known to the banks in Coastlandia, that the additional borrowings could considerably increase the company's gearing and also that the company's change in strategic direction may make banks less certain of KCTP's future prospects. This task was often well attempted, but many not so strong answers only identified and explored the impact of the borrowing on gearing.

The final task in this section was to explain the factors that KCTO should consider if deciding to finance the investment by means of a rights issue. This task was often insufficiently attempted with less strong responses showing a lack of understanding of what a rights issue is. Level 3 responses explored the likely costs of such an issue, and correctly identified that the amount of funds required meant that a rights issue could be suitable. Stronger answers showed understanding of the process, such as the need to price the issue appropriately, the decision to use or not use underwriters, and the information to be released to shareholders.

Section 3

Section 3 explained that one potential tenant, a company established by the University of Capital City, was interested in the cloud-based IT service, but would want the University's own Internal Audit Department to be allowed to visit the data centre regularly in order to check compliance with controls.

Candidates were asked to evaluate the ethical implications of KCTP permitting Capital City University to conduct its own internal audit investigation. Stronger responses used the CIMA code of ethics as a structure, identifying that this proposal would breach the principles of confidentiality and professional behaviour. Many level 3 answers also identified that KCTP would not be straightforward and honest, and that therefore, the proposed justification for breaching the contract would be not demonstrate integrity, and that the undue influence would be a breach of integrity. Some strong answers also gave a clear recommendation, that the access should not be permitted. Level 2 answers often identified fewer ethical breaches, and less strong answers concluded that there is no ethical breach and the University's Internal Audit team should be allowed to carry out their work.

The final task was to evaluate a proposal that KCTP should appoint a part-time executive director to be based at the data centre and have responsibility for its management. Stronger answers identified that the new appointment could cause conflict with Bill McDougall, that the managers of the data centre might be demoralised by being supervised on site by a director, and that the new director might feel separate from the rest of the Board due to the physical distance. Many answers questioned why the new position should be part-time and pointed out potential problems with this, including the fact that the director might not be completely committed to KCTP and could be carrying out conflicting duties elsewhere.

Less strong responses often made a recommendation – to make or not to make the appointment, without appropriate justification for this.

Variant 3

Comments on performance

Section 1

Section 1 introduced candidates to the proposal of acquiring Moxopark Lec (Lec), an industrial park bordering KCTP's site. Notably, the reference material states that all of Lec's buildings have been optimised for electronics production. Candidates were presented with a letter from the Chief Executive of Lec's holding company, Moxopark Holdings, outlining the proposal.

The first task asked candidates to apply three scenarios to explain whether scenario planning could be used to evaluate the potential synergies that could arise from investing in Lec.

A level 3 response to this task demonstrated a clear understanding of the role scenario planning could play in the acquisition decision and also considered three relevant, as well as well justified scenarios where potential synergies could be achieved. Level 3 and strong level 2 responses were those that focused on scenarios which considered relevant and appropriate synergies between the tenants of the two parks and scenarios relating to converting some/ all the acquired buildings to suit other purposes, including biotechnology.

Not so strong answers tended to consider scenarios which were not really focused explicitly on the potential synergies that could be achieved from this proposed acquisition and therefore were more general than applied. For example, some candidates only discussed potential issues relating to acquisitions and mergers, rather than focusing on specific synergies that this acquisition could achieve.

The second task asked candidates to recommend the factors that KTCP's Board should consider when deciding whether to enter into detailed discussions with Moxopark Holdings.

A level 3 response to this task offered a clear and comprehensive assessment of a wide range of factors that KCTP's Board should consider, including financing issues, cost and revenue implications and the impact on key stakeholders. Level 3 and strong level 2 answers also presented well-argued reasons why these factors were important to the decision.

Some candidates used the SAF approach to structure their answers to this subtask, which was reasonable and gained good credit if well applied to the scenario context and the decision being considered.

Marginal level 2 and level 1 answers were often limited in considering a very narrow range of other factors or failed to consider the most important factors. For example, some answers focused only on stakeholder reactions with no or very limited consideration of financial implications of the proposal.

Section 2

Section 2 presented candidates with an executive summary by the Director of Operations, which proposed that should the acquisition of Lec go ahead, its factory units should be set up as a centre of manufacturing excellence to support the manufacturing needs of KCTP's tenants. Candidates were also told in the reference material that it was likely the acquisition would be financed by a rights issue, which would increase KCTP's market capitalisation by 50%.

The first task asked candidates to evaluate the suitability, acceptability and feasibility of KCTP's intention to create a commercially successful centre of manufacturing excellence from the Lec site.

A level 3 response to this task made extensive use of both the unseen and pre-seen material to support their points. For example, strong answers made excellent use of the pre-seen material to consider the suitability of the proposal in terms of its fit with KCTP's mission, vision and values. Additionally, strong answers focused on KCTP's financial position to consider the financial feasibility of the proposal. Level 3 and strong level 2 responses also presented balanced and well considered analysis of each of the SAF criteria, which were well applied to the case context and which also presented sound evaluation of the proposal from the perspective of KCTP and its stakeholders.

Level 1 responses to this task often demonstrated a lack of understanding of the SAF model, in that there was often confusion between the sections and often limited application.

The second task asked candidates to consider the challenges associated with successfully implementing such a large rights issue to acquire Lec, and to recommend how these challenges could be overcome.

A level 3 response to this sub-task considered a wide range of potential challenges, importantly focusing on the size of this rights issue and the challenges associated with setting an appropriate price and the difficulties these would present to KCTP. Level 3 and strong level 2 answers also appropriately considered the position of its key shareholder, CC University and the impact a rights issue would have on it. Strong answers recognised that CCU would likely find it very difficult to take up this offer and therefore this could jeopardise the success of the rights issue. Level 3 and strong level 2 answers also recognised the signalling implications that this rights issue might create.

In terms of the recommendations to overcome these challenges, most candidates presented a good range of valid actions to achieve a strong level 2 answer. Candidates who achieved a strong level 2 score largely did so by recommending sound and appropriate advice to communicate effectively with its key shareholders and to the markets and potentially to consider alternative funding options.

Level 1 responses were often theoretical descriptions of a rights issue rather than a discussion of its practical application by KCTP. Some candidates demonstrated a limited knowledge and understanding of rights issues and their potential impact on a company's shareholders.

Section 3

Section 3 introduced an email from Dr. Helga Kress, the Non- Executive Director of KCTP, representing CC University. The email outlined three concerns that Dr. Kress has about the possible acquisition of Lec.

The first task asked candidates to evaluate the first concern of Dr. Kress, which was that the acquisition of Lec is inconsistent with KCTP's vision and mission and therefore should not be undertaken.

Level 3 responses to this task offered a balanced and well considered evaluation of KCTP's vision and mission and the consistency of the acquisition with these. Strong answers also made good use of the pre-seen material and the task reference material to make a judgement about the potential inconsistency of the proposed acquisition.

Level 1 responses were largely descriptive of KCTP's mission and vision statement and often did not really grasp the meaning of the task.

The second task asked candidates to evaluate Helga's argument that the acquisition would require a doubling of the size of KCTP's Board of directors.

Level 3 responses offered a comprehensive and well-balanced assessment of the requirements of a board, post-acquisition. Strong answers recognised a range of arguments both for and against additional board members and used the scenario information to support the points they made. Importantly, stronger answers recognised that a doubling of the assets of the business would not require a corresponding doubling of the number of directors.

Not so strong responses largely presented only one side of the discussion (most often that more board members were required) and many got distracted by discussions about governance and committee structures required. This was not what the question asked and therefore gained limited credit.

The third task asked candidates to recommend the issues KCTP should consider when undertaking a resource audit, before making a decision to acquire Lec. This task was based on the statement made by Helga in her email that KCTP lacks many of the resources required to make a successful acquisition.

Level 3 responses demonstrated sound knowledge and application of the main aspects of a resource audit, relating these discussions specifically to the resources needed to successfully acquire Lec. Many of the best answers used the 9M's to structure their answers, which was useful and appropriate where applied well.

Not so strong answers often did not answer the question set. Some discussed the function and tasks of the internal auditors and others provided theoretical answers relating to audit tests and audit processes.

Variant 4

Comments on performance

Section 1

Section 1 began with the KCTP Board discussing a proposal to establish the company as a centre of excellence for the design and construction of PocketQube. Candidates were first asked for an explanation, using three scenarios of how scenario planning could be used to evaluate this idea.

Some candidates addressed this task very well, with level 3 responses selecting three realistic scenarios and using them to explain how the scenario planning technique would help KCTP plan for the implications they highlighted. Strong answers often also explained the purpose of scenario planning. Many less strong responses set out 3 scenarios but did not develop their discussion to explain how scenario planning would help KCTP. Some of the scenario descriptions were very brief, stating that the proposal could go badly, very well or reasonably well. Level 1 answers sometimes stated that KCTP should not use scenario planning at all and instead recommended alternative methods.

The second task in this section asked what challenges would be faced in determining the acceptability of this proposal to KCTP's shareholders, and what would be appropriate responses to these. Level 3 answers recognised that the Board would not be able to seek direct feedback from shareholders, and many stronger responses also discussed the importance of Capital City University as a major shareholder and the advisability of discussing the proposal with them. Strong responses also linked shareholders opinions to share price movement.

Some not so strong responses discussed acceptability to all stakeholders and spent time identifying different stakeholders, how they should be prioritised and explaining their likely viewpoints, rather than answering the question presented.

Section 2

In section 2 a report had been commissioned which anticipated an increase in both KCTP's beta and revenue if the proposal proceeds. The first task was to explain the relevance of these findings to the Board.

This section was often well attempted, with level 3 responses showing an in-depth understanding of the reasons for and impact of an increase in beta, as well as revenue. Level 2 answers were often less well applied to the specific scenario although many did show understanding of the significance of an increase in the company's beta.

Candidates were also informed that a vacant building had been let to a company which designs satellite communication systems without the standard background and credit checks being carried out. They were asked to explain whether KCTP's Internal Audit Department should be asked to investigate this incident. Level 3 responses explained the importance of compliance and the role of Internal Audit in providing assurance that controls are operating correctly. The importance of sending a signal to all departments that

this behaviour is unacceptable was also recognised. Some level 2 answers focussed on the actions of the marketing department rather than the role of Internal Audit.

The final task in this section was to evaluate a suggestion about the Non-Executive Chair that KCTP should appoint, which is an additional independent non-executive director to take a specific interest the satellite industry.

Some responses to this were very strong, showing understanding of the role of a non-executive director, commenting on the balance of the Board and the role of the Nominations Committee in considering the need for an appointment. Many strong answers recognised the difficulty of appointing a non-executive with a narrow remit rather than the more usual broad oversight role. Less strong answers were often overly focussed on the cost to KCTP of an additional director and many stated that the appointment of an additional non-executive would improve the balance of the Board, without supporting this assertion or considering the issue of independence.

Section 3

This section began with the receipt of a letter which indicates that a potential tenant is concerned that KCTP charging rent in A\$ would mean that they cannot move to a KCTP unit as their home currency is the P\$ and the satellite industry conducts business in V\$. Candidates were asked to explain how focussing on the satellite industry would impact on KCTP's currency exposure to movement between the A\$ and V\$.

This task was often not comprehensively addressed, with many responses providing “textbook” descriptions of transaction, translation, and economic risk, together with lists of potential hedging methods and how they work, without any application to the specific scenario. Level 3 answers discussed the likely exposure of KCTP, identifying where it arose and discussing the potential impact on KCTP as well as their satellite industry focussed tenants.

Candidates were also asked to recommend and explain how a focus on the satellite industry should be reflected in KCTP's risk register. Answers to this varied in quality. Strong level 3 responses explained the content and purpose of a risk register, and then moved on to describe some risks which would arise from a focus on the satellite industry, their potential impact and how they could be mitigated. For example, a focus on the satellite industry could lead to other tenants feeling unwelcome and give KCTP difficulty in filling vacant units. This could be mitigated by maintaining a dialogue with all tenants and marketing units to all potential applicants. Less strong responses identified some risks which should be included but did not explain why adding risks to the register is important, what should be recorded or demonstrate an understanding of the risk register.

Variant 5

Comments on performance

Section 1

The University of Eastland (“UoE”) has approached KCTP with a proposal that it will create a centre of excellence to study quantum computing on the KCTP campus. This will be a significant investment and UoE hopes that it will be able to negotiate some incentives from the company.

The first task asked for an explanation of how scenario planning might help evaluate whether UoE should be encouraged to locate at KCTP, with three examples of scenarios to be provided. Candidates generally demonstrated an understanding of what scenario planning is. Variations in quality tended to be related to the relevance of the scenarios being provided. Level 1 answers generally did not address the task to provide three examples of scenarios, or the scenarios that they provided were unrealistic and unhelpful. Level 3 answers generally offered sound areas of uncertainty that were worth considering as potential scenarios and explain how their evaluation might demonstrate the usefulness of scenario planning. Level 2 answers often did not identify three valid scenarios, perhaps offering two or even a single scenario.

The second task asked for the identification and evaluation of political risks faced by UoE in establishing itself in KCTP’s home country. There was a variation in the quality of answers, with many candidates appearing to understand what political risks really are. Some candidates managed to identify risks without offering any real evaluation of their seriousness. Level 1 answers generally offered unstructured lists of risks, many of which could not really be classified as political. Some risks were political, without necessarily being credible. Level 3 answers highlighted risks that really could affect UoE’s attempt to establish itself in Advland. For example, many strong answers expressed concern that Advland’s government might be reluctant to issue the required work permits to UoE staff who would be based at KCTP.

Section 2

UoE has established a research base at KCTP, but is finding the IT infrastructure to be inadequate. It has offered to buy the existing infrastructure with a view to upgrading it and taking over responsibility for the provision of IT services for KCTP and all of its clients.

The first task asked about the risks that would arise from this proposal. Candidates generally answered this task well, with a wide range of risks being offered. As always, all answers were marked on their merits. Level 3 answers generally identified a range of risks and explained each in sufficient detail to ensure that it had been properly identified. Some of those answers demonstrated some evidence of critical thinking. Such as, the possibility that UoE might decide to leave KCTP in the medium-term future and that could leave KCTP without adequate IT provision. Level 2 answers tended to offer less detail in terms of the identified risks and level 1 answers generally said too little.

The second task asked about the implications of using the payment from UoE to make a partial share repurchase. Answers to this task varied in quality. Level 1 answers generally were quoting the content of study materials without any application to the scenario. For example, level 1 answers often discussed possibilities such as the repurchase forcing KCTP to borrow, despite the fact that the scenario makes it clear that the cash in question is being paid into the company by UoE and that KCTP had no specific need of it. Level 3 answers demonstrated an understanding of share repurchase, but tailored the discussion to the scenario.

Section 3

UoE has offered to rent two further buildings on the KCTP campus. This reflects the ongoing success of the work that is being undertaken there.

The first task asked whether renting additional buildings to UoE was consistent with KCTP's mission. Candidates submitted arguments both for or against this position, and some offered both sides of the argument. Marks were awarded on the basis of the arguments offered in support of any such conclusion. Level 3 answers focussed on the definition of the terms in the Mission and discussed the definitions in terms of UoE's intentions. For example, one common argument drew on the implications for science, of a breakthrough in quantum computing and so developed an argument that granting UoE's request would be consistent with the mission. Level 1 answers generally did not address the task comprehensively, perhaps by defining the purpose of the mission statement.

The second task asked whether KCTP had an ethical duty to protect stakeholders against aggressive staff recruitment by UoE. The issue in question was that UoE's planned expansion would require the appointment of large numbers of highly-skilled staff. Candidates were free to argue for or against the existence of an ethical duty, with marks being awarded on the basis of the quality of the arguments. Level 1 answers generally quoted fundamental principles but offered little or no linkage back to their application to the scenario. Level 3 answers offered reasoned arguments that explored KCTP's responsibilities in this case. Some interesting arguments were put forward in the process.

The third task asked whether it was appropriate to increase directors' salaries on the basis that their workloads had increased because of the need to manage the relationship with KCTP. Answers varied in quality, with level 1 answers generally asserting a position with regard to increasing salaries, but with little or no real justification for that position. Level 2 answers developed some arguments to support the view for or against an increase. Level 3 answers generally referred to governance principles and linked those to the discussion of the appropriateness of granting an increase.

Variant 6

Comments on performance

Section 1

Section 1 introduced candidates to an incident at KCTP's site in which intruders had tried to access a router carrying data on KCTP's network. Candidates were presented with an incident report which highlighted the incident and the actions of the police who arrested the intruders.

The first task asked candidates to explain how the incident could help KCTP to understand the importance placed on its IT infrastructure by its tenants and to recommend how KCTP should manage tenant's expectations.

A level 3 response to this task demonstrated a clear understanding of the specific data and IT infrastructure needs of KCTP's tenants and provided a range of relevant actions to manage the expectations of these tenants. Level 3 and strong level 2 responses were those that clearly identified and explained the range of KCTP's tenants and the work they carried out (such as confidential and innovative research projects), and thus clearly recognised their reliance on the highest security of the data network provided by KCTP. Level 3 and strong level 2 responses also made a good attempt at recommending suitable actions, such as effective communication about data security measures and regular review and upgrading of IT security (including physical security measures), in order to manage tenant's expectations.

Less strong level 2 answers tended to be quite brief, in that they recognised that the types of tenants operating on KCTP's site relied heavily on the security of the data network, but they did not provide relevant examples and explanations of this reliance. These answers also often lacked sufficient consideration of managing tenants' expectations.

Level 1 responses demonstrated limited understanding of the importance of security for KCTP's data network and often did not answer the question that had been asked. Several candidates presented solutions to the data breach, but this scored few marks as this was not what was asked for. Some provided theoretical answers relating to data security with little or no application to KCTP. Level 1 answers also often did not consider at all, how to manage the tenants' expectations.

The second task asked candidates to evaluate the ethical implications of withholding news of the intrusion until more information is available.

A level 3 response to this sub-task offered a clear and comprehensive assessment and application of a range of potential ethical implications, including integrity, objectivity confidentiality and professional behaviour. Level 3 and strong level 2 answers applied the ethical principles they identified directly and correctly to the issue of withholding the news from the tenants. The best answers were those that took a balanced view of the potential positive and negative implications of such a decision by KCTP.

Marginal level 2 and level 1 answers were often limited in considering only a narrow range of ethical implications and answers were often theoretical and poorly applied.

Section 2

Section 2 presented candidates with information relating to a proposal to acquire ITGard, an unquoted cyber security company that could offer KCTP's tenants a cybersecurity service integrated with KCTP's own campus network and IT systems. The reference material set out the range of services offered by ITGard.

The first task asked candidates to evaluate whether the proposed acquisition of ITGard was consistent with KCTP's mission to "offer an open, strategic platform for the development of innovation, technology and enterprise".

A level 3 response to this task made extensive use of both the unseen and pre-seen material to support their points. For example, strong answers made excellent use of the pre-seen material to consider KCTP's mission, vision and values against the services highlighted by ITGard in the reference material. Additionally, stronger answers considered the perspectives of KCTP's stakeholders in terms of how consistent they would consider such an acquisition, in particular CC University. The strongest answers were those that took a balanced approach and considered both positive and negative aspects of whether the acquisition would be consistent.

Not so strong level 2 responses made an attempt to evaluate the strengths and weaknesses of the proposed acquisition but often made only limited reference to its consistency and impact on the mission statement.

Level 1 responses often did not grasp what was being asked in this sub-task and failed to make any clear link between the potential acquisition and its consistency with KCTP's mission. Some level 1 responses did not consider the mission statement at all.

The second task asked candidates to discuss the challenges associated with determining a realistic purchase price for ITGard and to recommend a suitable valuation model that KCTP could use.

A level 3 response to this sub-task correctly recognised the types of challenges that KCTP would face in placing a value on an unquoted company like ITGard. Level 3 and strong level 2 answers recognised the lack of assets on which to base a potential valuation. Strong answers also critically discussed and applied a good range of appropriate valuation techniques that could be used. The strongest candidates also clearly discussed which of these were most applicable.

Not so strong level 2 responses tended to demonstrate reasonable knowledge of a range of valuation techniques, but the answers presented were largely theoretical. Candidates are once again reminded that limited credit is given to answers which are not applied directly to the case context.

Level 1 responses were brief, often slightly more than lists of valuation models.

Section 3

In Task 3 candidates were presented with extracts from a Board meeting which outlined the potential reasons for the disappointing results of tenants' take-up of the services offered by ITGard, following its acquisition three months earlier.

The first task asked candidates to evaluate the claim made by ITGard's founder and CEO, that continuing formal training is of little value in enhancing the skills of its experienced cybersecurity professionals.

Level 3 and strong level 2 responses took a balanced approach to answering this question. The best answers were those that considered arguments that supported formal training for cybersecurity professionals and then also considered why formal training may not be of value for cybersecurity professionals. Strong answers made comprehensive use of the reference material and these candidates used their knowledge and experience of the skills required of cybersecurity professionals to present a commercially sound response.

Less strong level 2 responses to this task tended to present only a one-sided response, often being heavily critical of the claims made by the founder of ITGard. When asked to 'evaluate' candidates should always try to present arguments both for and against the issue being discussed.

Level 1 responses tended to focus on the training needs of IT professionals in general and did not really answer the question that had been asked.

The second sub-task asked candidates to evaluate the Human Resource Director's concern that the loss of ITGard's founder would be a severe loss to KCTP.

Again, level 3 and strong level 2 responses offered a comprehensive and well-balanced assessment of the potential impact of the loss of ITGard's founder, post-acquisition. Strong answers recognised a range of pros and cons of losing this key member of staff, particularly that it was so soon after the acquisition. Importantly, comprehensive answers recognised that key stakeholders would likely be concerned but that the severity of the loss could and should be managed by KCTP.

Not so strong level 2 and level 1 responses largely presented only one side of the discussion (most often that the loss would be severe and damaging) and many got distracted by discussions about governance and the skills and training needs required for board members. This was not what the question asked and therefore gained limited credit.

The third task asked candidates to explain whether Internal Audit might have a role to play in ensuring that all KCTP's professional staff, not just those engaged in cybersecurity, are completing sufficient ongoing training.

Generally, the answers for this section of Section 3 received the lowest marks. This was largely because many candidates focused incorrectly on the role of the Internal Audit department in carrying out training, rather than on whether Internal Audit should play a role

in ensuring that all professional staff complete ongoing training. Many candidates forgot to focus on the fundamental role of the Internal Audit function.

Level 3 and strong level 2 responses demonstrated sound understanding of the potential role that the Internal Audit function could play in ensuring that KCTP's staff undertake ongoing training. Many focused on the key function of checking departmental compliance with training activities and to reassure the Board that training was being effectively and regularly undertaken.

Less strong level 2 and level 1 answers most often incorrectly assumed that the role of the Internal Audit was to identify training needs and to set training guidelines for KCTP's staff. This is clearly beyond the remit of the Internal Audit function and demonstrated a lack of commercial awareness and understanding.

Strategic Level Case Study November 2020–February 2021
Marking Guidance
Variant 1

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Strategic Case Study [November 2020–February 2021].

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

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

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

General marking guidance

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



- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.

Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

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

3. Select a mark within the level

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

Summary of the core activities tested within each sub-task

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

SECTION 1			
Task (a) Firstly, evaluate the strengths and weaknesses of the proposal that KCTP should pursue a digital strategy, including support for advanced digital simulation.			
Trait			
Strengths	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible strengths of proposal	1-3
	Level 2	Describes proposal's strengths with some justification	4-6
	Level 3	Provides a clear and logical evaluation of proposal's strengths	7-9
Weaknesses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible weaknesses of proposal	1-2
	Level 2	Describes proposal's weaknesses with some justification	3-5
	Level 3	Provides a clear and logical evaluation of proposal's weaknesses	6-8
Task (b) Secondly, evaluate the suitability of the proposal to allow the units to be used by any type of business.			
Trait			
For Suitability	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible arguments in favour of suitability of seeking other tenants	1-3
	Level 2	Offers an argument in favour of suitability of seeking other tenants, with some justification	4-6
	Level 3	Provides a clear and logical evaluation of arguments for suitability of seeking other tenants	7-9



Against Suitability	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible arguments against suitability of seeking other tenants	1-2
	Level 2	Offers an argument against suitability of seeking other tenants, with some justification	3-5
	Level 3	Provides a clear and logical evaluation against suitability of seeking other tenants	6-8

SECTION 2			
Task (a) Firstly, identify and explain the potential implications for the share price and governance of KCTP if Capital City University sells its 20% stake in the company.			
Trait			
Short term	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains efficient market hypothesis	1-2
	Level 2	Describes the impact on the share price in the short term	3-5
	Level 3	Provides a full discussion of the impact on the share price in the short term and the implications of that impact	6-8
Long term	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains how the share price will behave in the medium to long term	1
	Level 2	Explains the impact on the share price in the medium to long term and the implications of that impact	2-3
	Level 3	Provides a full discussion of the impact on the share price in the medium to long term and the implications of that impact	4
Block sale	Level	Descriptor	Marks
			0
	Level 1	Identifies the possibility of a buyer taking the full 20% block	1
	Level 2	Explains the implications for KCTP of a buyer taking the full 20% block	2-3
	Level 3	Provides a full discussion of the implications for KCTP of a buyer taking the full 20% block	4
Relationship	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the possibility of there being implications of losing the University as a shareholder	1
	Level 2	Explains the implications for KCTP of losing the University as a shareholder	2-3

	Level 3	Provides a full discussion of the implications for KCTP of losing the University as a shareholder	4
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Task (b) Secondly, **explain** whether it was appropriate for Professor Kress to present the University's position and interests during a KCTP Board meeting.

Trait			
Appointment	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the fact that Prof Kress was appointed to look after the University's interests	1
	Level 2	Explains the implications of Prof Kress being appointed to look after the University's interests	2-3
	Level 3	Discusses the implications of Prof Kress being appointed to look after the University's interests	4-5
Inform	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the fact that the Board were being kept informed of Prof Kress' intentions	1
	Level 2	Explains the value of the Board being kept informed of Prof Kress' intentions	2-3
	Level 3	Discusses the value of the Board being kept informed of Prof Kress' intentions	4
Duty	Level	Descriptor	Marks
		No rewardable material	0
		Identifies Prof Kress' duties to KCTP shareholders in general	1
		Explains Prof Kress' duties to KCTP shareholders in general	2-3
		Discusses Prof Kress' duties to KCTP shareholders in general	4

SECTION 3			
Task (a) Firstly, explain why Bill's agreement with Capital City University will create reputational risks for KCTP.			
Trait			
Business failure	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the possibility of being associated with failed businesses	1
	Level 2	Discusses the implications of being associated with failed businesses	2-3
	Level 3	Provides a full discussion of the implications of being associated with failed businesses	4-5
Lost Loans	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the possibility of being associated with lenders' losses	1
	Level 2	Discusses the implications of being associated with lenders' losses	2-3
	Level 3	Provides a full discussion of the implications of being associated with lenders' losses	5
Task (b) Secondly, explain how this arrangement should be reported under the Social and Relationship Capital heading of our Integrated Report.			
Trait			
Relationship	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible disclosures relating to the relationship aspect	1-2
	Level 2	Recommends, with some justification, disclosures relating to the relationship aspect	3-5
	Level 3	Provides a full recommendation, with justification, of the disclosures relating to the relationship aspect	6-8

Social	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible disclosures relating to the social aspect	1
	Level 2	Recommends, with some justification, disclosures relating to the social aspect	2-3
	Level 3	Provides a full recommendation, with justification, of the disclosures relating to the social aspect	4-5
<p>Task (c) Thirdly, Bill does not appear to have requested the usual Health and Safety check on the equipment to be installed by these new tenants. Explain whether it would be appropriate for the Board to ask Internal Audit to investigate why Bill did not insist on Health and Safety checks on these three tenants.</p>			
Trait			
Arguments for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the case for using internal audit	1
	Level 2	Offers a clear argument for using internal audit	2-3
	Level 3	Offers a clear and comprehensive argument for using internal audit	4
Arguments against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the case against using internal audit	1-2
	Level 2	Offers a clear argument against using internal audit	3-4
	Level 3	Offers a clear and comprehensive argument against using internal audit	5-6

Strategic Level Case Study November 2020–February 2021
Marking Guidance
Variant 2

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How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
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- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

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

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	A	Develop business strategy	60%
(b)	B	Evaluate business ecosystem and business environment	40%
Section 2			
(a)	B	Evaluate business ecosystem and business environment	34%
(b)	C	Recommend financing strategies	33%
(c)	C	Recommend financing strategies	33%
Section 3			
(a)	D	Evaluate and mitigate risk	50%
(b)	E	Recommend and maintain a sound control environment	50%

SECTION 1			
Task (a) Firstly, explain how digital transformation has changed the business needs of the typical tenants of KCTP and also of KCTP itself.			
Trait			
Digital tech	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes digital technologies	1
	Level 2	Explains digital technologies and their impact	2-3
	Level 3	Provides a clear explanation of digital technologies and their impact with good justification	4-5
Physical assets	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes future of technology parks	1
	Level 2	Explains the future of physical technology parks	2-3
	Level 3	Provides a clear explanation of the future of physical technology parks with good justification	4-5
Make use of links	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies KCTP's existing links with tenants	1
	Level 2	Explains KCTP's ability to make use of links	2-3
	Level 3	Provides a clear explanation of KCTP's ability to make use of links, with good justification	4-5
Make use of trust	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies trust as an issue	1
	Level 2	Explains trust enjoyed by KCTP	2-3
	Level 3	Provides a clear explanation of trust enjoyed by KCTP, with good justification	4-5

Task (b) Secondly, **explain**, using two scenarios, how scenario planning could be used to evaluate whether KCTP should offer cloud-based processing and storage.

Trait			
Context	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes scenario planning	1-2
	Level 2	Identifies the context in which scenario planning will be applied	3-4
	Level 3	Provides a clear statement of the context in which scenario planning will be applied	5-6
Examples	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible scenarios	1-2
	Level 2	Provides a clear discussion of scenarios	3-5
	Level 3	Provides a clear and well justified discussion of scenarios	6-7

SECTION 2

Task (a) Firstly, **identify** and **explain** the economic currency risks that will arise when operating a data centre in Coastland.

Trait			
Currency	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines economic risk	1-2
	Level 2	Provides a clear explanation of impact of currency movements	3-4
	Level 3	Provides a full and clear explanation of impact of currency movements with good justification	5-6
Elasticity	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies price elasticity as an issue	1
	Level 2	Explains issues relating to passing price increases on to customers	2-3
	Level 3	Provides a clear and well supported explanation of issues relating to passing price increases on to customers	4-5

Task (b) Secondly, **identify** and **explain** the difficulties that KCTP may encounter when trying to demonstrate its creditworthiness to a Coastlandian bank in order to borrow the A\$700 million required for this investment.

Trait			
Gearing	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines gearing	1-2
	Level 2	Explains significance of increase in KCTP's gearing	3-4
	Level 3	Provides a full and clear explanation of the significance of an increase in KCTP's gearing	5-6
Security	Level		
		No rewardable material	0
	Level 1	Defines security	1

	Level 2	Explains significance of KCTP's ability to provide security	2-3
	Level 3	Provides a full and clear explanation of the significance of KCTP's ability to provide security	4-5
Task (c) Thirdly, identify and explain the factors that KCTP would have to consider if it decides to finance the investment in the data centre by means of a rights issue.			
Trait			
Markets	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines rights issue	1-2
	Level 2	Explains implications of market perceptions	3-4
	Level 3	Offers a full and clear explanation of market perceptions	5-6
Avoid failure	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible under subscription	1
	Level 2	Explains factors that could lead to under subscription	2-3
	Level 3	Provides a full and clear explanation of factors that could lead to under subscription	4-5

SECTION 3			
Task (a) Firstly, evaluate the ethical implications of KCTP permitting Capital City University to conduct its own internal audit investigations at the new data centre.			
Trait			
1st Principle	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines 1 st ethical principle	1
	Level 2	Applies 1 st ethical principle	2-3
	Level 3	Applies 1 st ethical principle with justification	4-5
2nd Principle	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines 2nd ethical principle	1
	Level 2	Applies 2nd ethical principle	2-3
	Level 3	Applies 2nd ethical principle with justification	4
3rd Principle	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines 3rd ethical principle	1
	Level 2	Applies 3rd ethical principle	2-3
	Level 3	Applies 3rd ethical principle with justification	4
4th Principle	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines 4th ethical principle	1
	Level 2	Applies 4th ethical principle	2-3
	Level 3	Applies 4th ethical principle with justification	4

Task (b) Secondly, **evaluate** the proposal made by Chloe Reynolds that KCTP should appoint a part-time executive director to be based at the data centre, with responsibility for its management.

Trait			
Board	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies board structure as an issue	1-3
	Level 2	Discusses implications for Board structure	4-6
	Level 3	Offers a full explanation of implications for Board structure	7-9
Data Centre	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies data centre management as an issue	1-2
	Level 2	Discusses implications for data centre management	3-5
	Level 3	Offers a full explanation of implications for data centre management	6-8

Strategic Level Case Study November 2020–February 2021
Marking Guidance
Variant 3

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- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
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Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	D	Evaluate and mitigate risk	60%
(b)	A	Develop business strategy	40%
Section 2			
(a)	B	Evaluate business ecosystem and business environment	50%
(b)	C	Recommend financing strategies	50%
Section 3			
(a)	E	Recommend and maintain a sound control environment	34%
(b)	E	Recommend and maintain a sound control environment	33%
(c)	A	Develop business strategy	33%

SECTION 1

Task (a) Firstly, **explain**, using three scenarios, whether scenario planning could be used to evaluate the potential synergies that could arise from investing in Lec.

Trait			
Uses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes scenario planning	1
	Level 2	Discusses the role that scenario planning might play, with some justification	2-3
	Level 3	Offers a full discussion of the role that scenario planning might play, with justification	4-5
Scenario 1	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers an example of a scenario	1
	Level 2	Provides a clear and relevant example	2-3
	Level 3	Provides a clear and relevant example, with justification	4-5
Scenario 2	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers an example of a scenario	1
	Level 2	Provides a clear and relevant example	2-3
	Level 3	Provides a clear and relevant example, with justification	4-5
Scenario 3	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers an example of a scenario	1
	Level 2	Provides a clear and relevant example	2-3
	Level 3	Provides a clear and relevant example, with justification	4-5

Task (b) Secondly, please **recommend**, with reasons, the factors (other than synergies) that KCTP's Board should consider when deciding whether or not to enter into detailed negotiations with Moxopark Holdings.

Trait			
Costs	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies costs as a factor	1-2
	Level 2	Discusses the cost of investing and the future operating costs	3-5
	Level 3	Provides a clear discussion of the cost of investing and the future operating costs	6-7
Revenues	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies revenues as a factor	1-2
	Level 2	Discusses future operating revenues	3-4
	Level 3	Provides a clear discussion of future operating revenues	5-6

SECTION 2

Task (a) Firstly, **evaluate** the suitability, acceptability and feasibility of Bill McDougall's intention to create a commercially successful centre of manufacturing excellence from the Lec site.

Trait			
Suitability	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes suitability	1-2
	Level 2	Provides a relevant discussion of the suitability of Bill's intention	3-4
	Level 3	Provides a full and relevant discussion of the suitability of Bill's intention	5-6
Acceptability	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes acceptability	1-2
	Level 2	Provides a relevant discussion of the acceptability of Bill's intention	3-4
	Level 3	Provides a full and relevant discussion of the acceptability of Bill's intention	5-6
Feasibility	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes feasibility	1
	Level 2	Provides a relevant discussion of the feasibility of Bill's intention	2-3
	Level 3	Provides a full and relevant discussion of the feasibility of Bill's intention	4-5
Task (b) Secondly, identify and explain the challenges associated with successfully implementing such a large rights issue in order to acquire Lec and recommend how those challenges might be overcome.			
Trait			
Size challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the size of the issue as a challenge	1
	Level 2		2-3

	Level 3		4-5
Dealing with size	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests a potential response	1
	Level 2	Recommends a credible response	2-3
	Level 3	Recommends a credible response, with justification	4
Signal challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies a lack of stock market confidence as an issue	1
	Level 2	Discusses the challenges caused by a lack of stock market confidence	2-3
	Level 3	Provides a full discussion of the challenges caused by a lack of stock market confidence	4
Dealing with signals	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests a potential response	1
	Level 2	Recommends a credible response	2-3
	Level 3	Recommends a credible response, with justification	4

SECTION 3			
Task (a) Firstly, evaluate the arguments that the acquisition of Lec would be inconsistent with KCTP's Vision and Mission and so should not be undertaken.			
Trait			
Consistency	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues relating to consistency	1-2
	Level 2	Offers evaluation of consistency	3-4
	Level 3	Offers a full evaluation of consistency, with justification	5-6
Importance	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines mission statement	1
	Level 2	Evaluates the need for consistency	2-3
	Level 3	Offers a full evaluation of the need for consistency	4-5
Task (b) Secondly, evaluate Helga's argument that the acquisition of Lec would require the appointment of additional directors.			
Trait			
Arguments for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Discusses role of directors	1
	Level 2	Evaluates arguments for proposal	2-3
	Level 3	Offers a clear evaluation of arguments for proposal	4-5
Arguments against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	States that such an increase may be excessive	1-2
	Level 2	Evaluates arguments against proposal	3-4
	Level 3	Offers a clear evaluation of arguments against proposal	5-6

Task (c) Thirdly, **recommend** with reasons the matters that KCTP should consider when conducting a resource audit prior to making a final decision to acquire Lec. This section of your paper should not cover issues about the competence of the Board or the availability of funding for the acquisition itself.

Trait			
Skills and culture	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies compatible culture as an issue	1-2
	Level 2	Recommends factors relating to culture and/or skills	3-4
	Level 3	Recommends factors relating to culture and skills, with reasons	5-6
Physical	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies physical resources as an issue	1
	Level 2	Recommends factors relating to physical resources/infrastructure	2-3
	Level 3	Recommends factors relating to physical resources/infrastructure, with reasons	4-5

Strategic Level Case Study November 2020–February 2021
Marking Guidance
Variant 4

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(b)	C	Recommend financing strategies	40%
Section 2			
(a)	C	Recommend financing strategies	34%
(b)	E	Recommend and maintain a sound control environment	33%
(c)	E	Recommend and maintain a sound control environment	33%
Section 3			
(a)	B	Evaluate business ecosystem and business environment	50%
(b)	D	Evaluate and mitigate risk	50%

SECTION 1

Task (a) Firstly, **explain**, using three scenarios, how scenario planning could be used to evaluate the idea of making the KCTP Campus a centre of excellence for the design and construction of PocketQube satellites.

SECTION 1			
Task (a) Firstly, explain , using three scenarios, how scenario planning could be used to evaluate the idea of making the KCTP Campus a centre of excellence for the design and construction of PocketQube satellites.			
Trait			
Relevance	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes scenario planning	1-2
	Level 2	Explains relevance of scenario planning to this exercise	3-5
	Level 3	Offers a full and well justified explanation of relevance of scenario planning to this exercise	6-8
Satellites	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Provides a simple example of the application of scenario planning to the satellite industry	1-2
	Level 2	Offers examples of the application of scenario planning to the satellite industry	3-5
	Level 3	Offers clear and well justified examples of the application of scenario planning to the satellite industry	6-8
Other tenants	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Provides a simple example of the application of scenario planning to tenants from existing backgrounds	1
	Level 2	Offers examples of the application of scenario planning to tenants from existing backgrounds	2-3
	Level 3	Offers clear and well justified examples of the application of scenario planning to tenants from existing backgrounds	4

Task (b) Secondly, **identify** and **describe** the challenges that we would face in determining the acceptability of this proposal to our shareholders and recommend appropriate responses.

Trait			
Challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines acceptability	1-2
	Level 2	Explains challenges associated with determining acceptability	3-5
	Level 3	Offers full explanation of the challenges associated with determining acceptability	6-7
Response	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some suggestions	1-2
	Level 2	Offers sensible recommendations to identified challenges	3-4
	Level 3	Offers sensible recommendations to identified challenges, with good justification	5-6

SECTION 2

Task (a) Firstly, **explain** the relevance to the Board of the financial analyst's findings that specialising in tenants with interests in PocketQube technology will increase KCTP's revenue and beta.

Trait			
Revenue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	States importance of revenue	1
	Level 2	Provides a clear explanation of the relevance of the increased revenue	2-3
	Level 3	Provides a clear and full explanation of the relevance of the increased revenue	4-5
Beta	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines beta	1-2
	Level 2	Provides a clear explanation of the relevance of the increased beta	3-4
	Level 3	Provides a clear and full explanation of the relevance of the increased beta	5-6

Task (b) Secondly, **explain** whether we should ask KCTP's Internal Audit Department to investigate the incident involving the new tenancy agreement.

Trait			
Role	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes role of internal audit	1
	Level 2	Provides a clear explanation of the role that internal audit might play	2-3
	Level 3	Provides a clear and full explanation of the role that internal audit might play	4-5

Assignment	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes a typical internal audit investigation	1-2
	Level 2	Provides a clear explanation of the work that internal audit might undertake	3-4
	Level 3	Provides a clear and full explanation of the work that internal audit might undertake	5-6
Task (c) Thirdly, evaluate the Non-Executive Chair's suggestion that KCTP should appoint an additional independent non-executive director to take a specific interest in our possible focus on the satellite industry.			
Trait			
Governance	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines independent non-executive director	1-2
	Level 2	Offers a clear evaluation of the governance implications of the proposed new board position	3-4
	Level 3	Offers a clear and full evaluation of the governance implications of the proposed new board position	5-6
Experience	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Considers other ways in which the director might help	1
	Level 2	Offers a clear evaluation of the potential benefits of introducing experiences and contacts into the Board	2-3
	Level 3	Offers a clear and full evaluation of the potential benefits of introducing experiences and contacts into the Board	4-5

SECTION 3

Task (a) Firstly, **explain** how focusing on the satellite industry would impact on our translation, transaction and economic exposures to movements in the exchange rate between the A\$ and V\$ and recommend how these exposures could be managed.

Trait			
Transaction and translation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines transaction and/or translation	1
	Level 2	Explains potential transaction and/or translation risks	2-3
	Level 3	Offers a clear explanation of potential transaction and translation risks	4-5
Economic source	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines economic risks	1-2
	Level 2	Explains potential economic risks	3-4
	Level 3	Offers a clear explanation of potential economic risks	5-6
Economic - response	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines economic risk	1-2
	Level 2	Offers a clear a response to economic risks	3-4
	Level 3	Offers a clear and logical response to identified economic risks	5-6

Task (b) Secondly, **recommend**, with reasons, how a focus on the satellite industry should be reflected in KCTP's "risk register."

Trait			
Purpose	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes risk register	1
	Level 2	Offers a clear explanation of the purpose of an addition to the risk register	2-3
	Level 3	Offers a clear and justified explanation of the purpose of an addition to the risk register	4-5

Reflection	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes the entries that should be made in the risk register	1-2
	Level 2	Offers a clear explanation of the content that should be added to the risk register	3-4
	Level 3	Offers a clear and justified explanation of the content that should be added to the risk register	5-6
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains the content that should be added to the risk register	1-2
	Level 2	Justifies the content that should be added to the risk register	3-4
	Level 3	Offers a clear justification for the content that should be added to the risk register	5-6

Strategic Level Case Study November 2020–February 2021
Marking Guidance
Variant 5

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Strategic Case Study [November 2020–February 2021].

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

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

General marking guidance

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



- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.

Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

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

3. Select a mark within the level

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

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	A	Develop business strategy	60%
(b)	B	Evaluate business ecosystem and business environment	40%
Section 2			
(a)	D	Evaluate and mitigate risk	50%
(b)	C	Recommend financing strategies	50%
Section 3			
(a)	E	Recommend and maintain a sound control environment	34%
(b)	B	Evaluate business ecosystem and business environment	33%
(c)	E	Recommend and maintain a sound control environment	33%

SECTION 1

Task (a) Firstly, **explain**, using three scenarios, how scenario planning could be used to evaluate whether we should encourage UoE to become established at KCTP.

Trait			
Relevance	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes scenario planning	1
	Level 2	Identifies the context in which scenario planning will be applied	2-3
	Level 3	Provides a clear statement of the context in which scenario planning will be applied	4
Upside	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies upside risk scenarios	1-2
	Level 2	Provides a clear discussion of upside risk scenarios	3-5
	Level 3	Provides a clear and well justified discussion of upside risk scenarios	6-8
Downside	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies downside risk scenarios	1-2
	Level 2	Provides a clear discussion of downside risk scenarios	3-5
	Level 3	Provides a clear and well justified discussion of downside risk scenarios	6-8

Task (b) Secondly, identify and evaluate the political risks faced by UoE in establishing itself in Advland.			
Trait			
Identification	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines political risk	1-2
	Level 2	Explains the main political risks	3-4
	Level 3	Provides a clear explanation of the main political risks	5-6
Evaluation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes effects of political risks	1-2
	Level 2	Evaluates identified risks	3-5
	Level 3	Provides a clear and full evaluation of identified risks	6-7

SECTION 2

Task (a) Firstly, **identify** the risks that would arise for KCTP if we allowed UoE to upgrade and then be responsible for the on-going provision and management of the IT infrastructure on our campus.

Trait			
Risks to tenants	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes cyber risk	1-2
	Level 2	Provides a clear discussion of the risks to tenants	3-5
	Level 3	Provides a clear and well justified discussion of the risks to tenants	6-8
Risks to KCTP	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Discusses costs to KCTP	1-3
	Level 2	Provides a clear discussion of the risks to KCTP	4-6
	Level 3	Provides a clear and well justified discussion of the risks to KCTP	7-9

Task (b) Secondly, **evaluate** the implications of using the A\$40 million from UoE to make a partial share repurchase, assuming that we had no specific need for the cash.

Trait			
Signalling	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes share repurchase	1-2
	Level 2	Offers a full discussion of market signals	3-5
	Level 3	Offers a full discussion of market signals, with full justification	6-8

Dividend	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difference between dividend and repurchase	1
	Level 2	Offers a comparison of repurchase v dividend	2-3
	Level 3	Offers a detailed comparison of repurchase v dividend	4
Price	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Discusses importance of share price	1
	Level 2	Discusses impact of repurchase on share price	2-3
	Level 3	Offers a detailed discussion of impact of repurchase on share price	4-5

SECTION 3			
Task (a) Firstly, evaluate Professor Helga Kress' argument that UoE should not be permitted to rent two additional buildings because doing so would be inconsistent with KCTP's Mission.			
Trait			
Consistency	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines mission statement	1-2
	Level 2	Discusses consistency with mission statement	3-4
	Level 3	Provides a full discussion of consistency with mission statement	5-6
Commercial decision	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies commercial issues as a factor	1
	Level 2	Discusses commercial implications of accepting	2-3
	Level 3	Provides a full discussion of commercial implications of accepting	4-5
Task (b) Secondly, evaluate Sanjay Gupta's argument that KCTP has an ethical duty to protect its stakeholders against aggressive staff recruitment by UoE.			
Trait			
First ethical argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies an ethical principle	1
	Level 2	Applies the principle to the scenario	2-3
	Level 3	Applies the principle to the scenario with good justification	4

Second ethical argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies an ethical principle	1
	Level 2	Applies the principle to the scenario	2-3
	Level 3	Applies the principle to the scenario with good justification	4
Third ethical argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies an ethical principle	1
	Level 2	Applies the principle to the scenario	2
	Level 3	Applies the principle to the scenario with good justification	3
Task (c) Thirdly, evaluate the strengths and weaknesses of Bill McDougall's argument that directors' salaries should be increased.			
Trait			
Arguments for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests arguments for proposal	1
	Level 2	Discusses strengths of proposal	2-3
	Level 3	Offers a clear discussion of strengths of proposal with justification	4-5
Arguments against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests arguments against proposal	1-2
	Level 2	Discusses weaknesses of proposal	3-4
	Level 3	Offers a clear discussion of weaknesses of proposal with justification	5-6

Strategic Level Case Study November 2020–February 2021
Marking Guidance
Variant 6

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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

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	B	Evaluate business ecosystem and business environment	60%
(b)	D	Evaluate and mitigate risk	40%
Section 2			
(a)	A	Develop business strategy	50%
(b)	C	Recommend financing strategies	50%
Section 3			
(a)	D	Evaluate and mitigate risk	34%
(b)	E	Recommend and maintain a sound control environment	33%
(c)	E	Recommend and maintain a sound control environment	33%

SECTION 1

Task (a) Firstly, **identify** and **explain** how this incident helps us to understand the importance placed on our IT infrastructure by our tenants and recommend how we can manage their expectations.

Trait			
Tenant needs	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes strategic relationship in terms of tenant needs	1
	Level 2	Discusses strategic relationship in terms of tenant needs	2-3
	Level 3	Clearly defines strategic relationship in terms of tenant needs	4-5
KCTP responsibility	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes strategic relationship in terms of KCTP responsibility	1
	Level 2	Discusses strategic relationship in terms of KCTP responsibility	2-3
	Level 3	Clearly defines strategic relationship in terms of KCTP responsibility	4-5
Immediate response	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Indicates need for immediate response	1
	Level 2	Recommends immediate response	2-3
	Level 3	Recommends, with justification, immediate response	4-5
Long term response	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Indicates need for long term response	1
	Level 2	Recommends long term response	2-3
	Level 3	Recommends, with justification, long term response	4-5

Task (b) Secondly, **evaluate** the ethical implications of withholding news of the intrusion until more information is available.

Trait			
Principles	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies principles	1-2
	Level 2	Identifies relevant principles	3-5
	Level 3	Identifies, with justification, relevant principles	6-7
Application	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some application of principles	1-2
	Level 2	Applies principles with some justification	3-4
	Level 3	Applies principles with good justification	5-6

SECTION 2

Task (a) Firstly, **evaluate** the proposed acquisition of ITGard in terms of its consistency with KCTP's mission to "offer an open, strategic platform for the development of innovation, technology and enterprise."

Trait			
Strategy	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes need for consistency	1-2
	Level 2	Identifies strategy pursued by KCTP	3-5
	Level 3	Identifies strategy in a manner that enables the clear evaluation of consistency.	6-8
Consistency	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes need for consistency.	1-3
	Level 2	Discusses consistency with strategy.	4-6
	Level 3	Evaluates consistency in a clear and realistic manner	7-9

Task (b) Secondly, **discuss** the challenges associated with determining a realistic purchase price for ITGard and recommend a suitable valuation model that we could use.

Trait			
Challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Discusses the challenges of determining an unquoted company's purchase price	1-2
	Level 2	Discusses the challenges of determining a purchase price for ITGard	3-4
	Level 3	Offers a clear discussion of the challenges of determining a purchase price for ITGard	5-6
Model	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes a relevant model	1-2
	Level 2	Offers a clear description and application of any relevant model	3-4

	Level 3	Offers a clear description and application of any relevant model, with justification	5-6
Zero sum	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies concept of setting a maximum price	1
	Level 2	Offers a clear discussion on the need to consider seller's interests.	2-3
	Level 3	Offers a clear discussion on the need to value from the perspectives of the buyer and the seller	4-5

SECTION 3

Task (a) Firstly, **evaluate** Dr Senarath's claim that continuing formal training is of little value in enhancing the skills of experienced cybersecurity professionals.

Trait			
Need for training	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes the benefits of formal training	1
	Level 2	Evaluates the benefits of formal training	2-3
	Level 3	Provides a clear evaluation of the benefits of formal training	4-5
Drawbacks	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes the potential limitations of formal training	1-2
	Level 2	Evaluates the potential limitations of formal training	3-4
	Level 3	Provides a clear evaluation of the potential limitations of formal training	5-6

Task (b) Secondly, **evaluate** Chloe Reynolds' concern that, now that we have acquired ITGard, Dr Senarath leaving would be a severe loss to KCTP.

Trait			
Consequence	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes the potential consequences of Dr Senarath leaving	1
	Level 2	Evaluates the potential consequences of Dr Senarath leaving	2-3
	Level 3	Provides a clear evaluation of the consequences of Dr Senarath leaving	4-5

Likelihood	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes the likelihood of Dr Senarath leaving	1-2
	Level 2	Evaluates the likelihood of Dr Senarath leaving	3-4
	Level 3	Provides a clear evaluation of the likelihood of Dr Senarath leaving	5-6
Task (c) Thirdly, explain whether Internal Audit might have a role to play in ensuring that all of KCTP's professional staff, not just those engaged in cybersecurity, are completing sufficient ongoing training.			
Trait			
Arguments for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the case for using internal audit	1
	Level 2	Offers a clear argument for using internal audit	2-3
	Level 3	Offers a clear and comprehensive argument for using internal audit	4
Arguments against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the case against using internal audit	1-2
	Level 2	Offers a clear argument against using internal audit	3-4
	Level 3	Offers a clear and comprehensive argument against using internal audit	5-6