

Specimen Exam 1

Exam Name: Performance and Insights Professional (SPI)

Time Allowed: 3 hours 15 minutes

Pass Mark: 50%

This examination contains 2 sections:

Section A:

1 question, worth 50 marks

Section B:

2 questions, each worth 25 marks

Total 100 marks

Section A

Question 1

The following **exhibits** provide information relevant to the question:

1. Company information – the background, industry information and strategy for the company: Banton Solar Co (Banton)
2. Non-financial performance measures – details of work required to recommend non-financial performance measures (NFPIs) for Banton
3. Activity-based budgeting – a request for work on the initial calculations for the activity-based budget (ABB)
4. Reward schemes – information on a proposal for a new reward scheme for Banton’s sales staff
5. Appendix 1 – additional information required for the activity-based budget (ABB) calculation

1 Company information

Banton is a listed company which produces and sells solar panels. Banton operates in Deeland, a large country which has diverse economic conditions in its different regions. Banton has been manufacturing and producing solar panels for over twenty years and has gained a reputation for reliability in Deeland. The solar panel industry is seen as being relatively young and Banton currently has few competitors though, with the growing demand for solar panels in Deeland, it is expected that the number of competitors will increase in the near future.

Banton’s overall aim is to enhance shareholder value. Its objectives are to ensure customer focus is at the centre of all its policies, to be at the forefront of sustainability in the industry, to be innovative in its product development and to be efficient in its operations.

2 Non-financial performance measures

Banton has traditionally only used profit-based measures, such as operating profit and return on capital employed (ROCE), to measure performance. At a recent board meeting, Banton’s new finance director (FD) stated that Banton should not just be measuring financial performance but should also be using non-financial performance indicators (NFPIs) to measure other important areas of its operations. The marketing and production directors were unclear about what the FD meant and requested that she provide examples of what these additional measures could be. The FD asked the marketing director and the production director to summarise what they believed were the two most important considerations in their areas under the headings of Customer

and Environmental and for the next board meeting the FD agreed to supply examples of non-financial performance measures under those headings. The directors' most important considerations are summarised below:

Marketing director	<p>Customer:</p> <ul style="list-style-type: none"> - Banton being the first choice for customers thinking about buying solar panels - The long-term reliable functionality of Banton's solar panels
Production director	<p>Environmental:</p> <ul style="list-style-type: none"> - A large amount of water is required for the cooling process in the production of solar panels - A significant amount of carbon dioxide (CO₂) is produced in the production of solar panels

To help her prepare for the next board meeting, the FD has asked you to recommend, with justification, two non-financial performance measures for each of the customer and environmental considerations identified by the directors. She has also asked that for the environmental measures you have recommended that you assess any difficulties which Banton may face in their measurement.

3 Activity-based budgeting

Two years ago, Banton started production of a new type of solar panel, model Y. This panel is more efficient than the standard panel, model X, which Banton has always produced. (Note: in this context, a more efficient solar panel is one which converts more of the sun's rays into electricity). Banton's sales of model Y have steadily increased since it was launched and it is becoming a more significant proportion of Banton's revenue. Banton's current budgeting method is incremental, with a traditional absorption approach, based on labour hours, being used to absorb overheads into the production costs of the two types of solar panel. However, the FD has been made aware that the production process for model Y is more time-consuming than that for model X and is considering changing the budget method to activity-based budgeting (ABB).

To help with this, she has asked for a review of the activities and costs involved in the production of both models. This review will be used as the starting point for the budget for October 20X5 which will be prepared using activity-based budgeting (ABB).

Using the information in Appendix 1, the FD would like you to undertake two pieces of work:

- Calculate the budgeted unit cost and profit margin of model X and model Y firstly using the traditional absorption costing approach and secondly using an activity-based costing approach.
- Assess the implications of your calculations for Banton's pricing policy.

4 Reward schemes

Banton receives sales enquiries by either telephone or e-mail through its head office function. The enquiries are then allocated to individual members of the sales staff based on the geographical region which each salesperson is responsible for. The individual member of the sales staff would then follow this up with a visit to the prospective customer's premises to try to establish the detailed customer requirements and, if appropriate, to try to sell Banton's solar panels to the customer. As investing in solar panels can be expensive, this often involves the customer taking out a loan to fund the purchase.

Current bonus scheme

Banton's sales staff currently receive a bonus based on Banton's operating profit for the year. If annual operating profit exceeds the budgeted figure by more than 8% then sales staff will be paid a bonus of 10% of their annual salary. Banton does not pay all sales staff the same salary, and the longer-serving members of staff are usually paid higher salaries than newer members of the sales staff.

Proposed bonus scheme

The new bonus scheme being proposed is split into two parts:

- 50% of the total bonus value will be based on Banton's operating profit exceeding budget by 8% and this part of the bonus will be reduced to 5% of the sales staff's annual salary, compared to the 10% currently offered.
- The other 50% of the bonus will be paid on an individual basis and will be based on the number of orders for solar panels placed by customers who the individual member of the sales staff has visited. This part of the bonus will only be paid when the number of orders attributed to each member of staff exceeds a certain target and the FD has yet to determine what that target will be. Once that target has been achieved the member of staff will earn a bonus of 5% of the value of every order placed.

Using the rewards criteria of clarity, controllability and motivation from Fitzgerald and Moon's Building Block model, the FD would like you to evaluate both the current and the

proposed bonus scheme and to make a justified recommendation as to which, if either, Banton should adopt.

5 Appendix 1

Appendix 1 - budget data for October 20X5		
	Model X	Model Y
Budgeted sales units	8,000	4,500
Selling price per panel	\$210	\$285
Direct material cost per panel	\$40	\$52
Labour hours per panel	2	3
Labour cost per hour	\$25	\$25
Machine hours per panel	1	4
Batch size (units)	50	10
Number of orders expected	40	28
Budgeted margin	45%	45%
Overheads	Cost driver	Cost (\$)
Power and machine cost	Machine hours	230,000
Production scheduling	Number of batches	13,000
Packaging	Number of units	26,000
Finishing and despatching	Number of orders	45,000
Total		314,000

Requirements:

It is now 1 September 20X5.

You are a performance management consultant for Banton Co.

Write a report to the finance director (FD) of Banton to respond to her instructions for work in the following areas:

(i) Non-financial performance measures

(14 marks)

(ii) Activity-based budgeting

(12 marks)

(iii) Reward schemes

(14 marks)

Professional marks will be awarded for the demonstration of skill in communication, analysis and evaluation, scepticism and commercial acumen in your answer.

(10 marks)

(50 marks)

Section B

Question 2

The following **exhibits** provide information relevant to the question:

1. Company information – industry information for the company: Mochrum Podcasts (Mochrum)
2. Performance dashboard – details of work required on Mochrum’s performance report
3. Appendix 1 – the current performance report

1 Company information

Mochrum is a company which produces weekly podcasts on health and health-related topics. Mochrum aims its podcasts at the population of Neeland although it is also keen to expand globally. Mochrum was started four years ago by two friends who are the joint owners of the company. They believed that health and fitness were the two most significant areas which the citizens of Neeland could improve to enable them to live longer and healthier lives. Their podcasts, which were initially available for free but now carry a subscription fee, quickly became the most listened to podcasts on health in Neeland.

Mochrum initially started by offering broad guidance on healthy eating and fitness. This advice was primarily based on books read by the owners and on their own personal experiences. The popularity of the podcasts grew quickly and the two friends, realising that the podcasts could be a source of significant income for them, began to charge for the podcasts and then sell advertising space on the podcasts.

Mochrum also began to promote certain books and literature through the podcasts and to promote live events and healthy diet courses. Merchandise, like t-shirts and keyrings, related to the podcast material was produced, which also sold well. Mochrum started to invite some health experts to speak on its podcasts to promote specific initiatives and Mochrum negotiated a percentage of the revenue from the subsequent sales of these initiatives. As a result, Mochrum’s revenue now comes from a variety of sources, and it is optimistic about further expansion of the business.

2 Performance dashboard

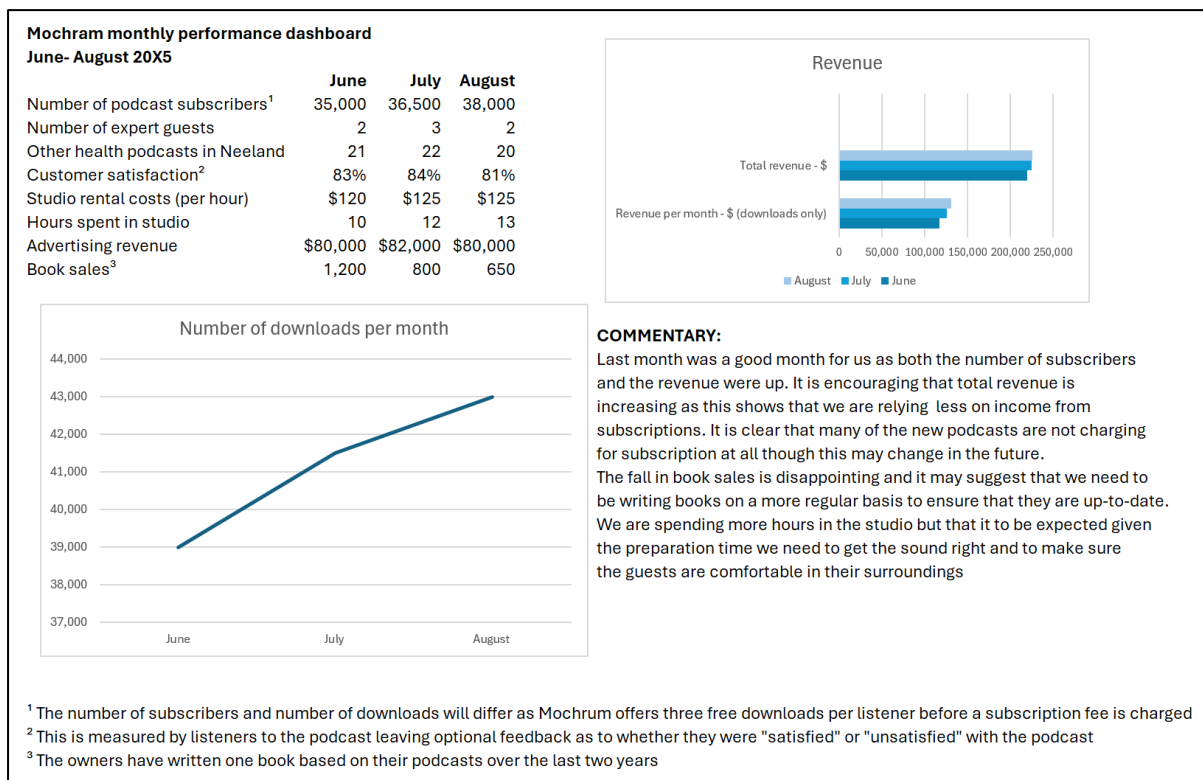
Mochrum’s overall aim is to provide health education advice in a manner which is fun and refreshing and to provide the two owners of the company with a sustainable and comfortable income. Its objectives are: to be the most popular health podcast in Neeland; to attract renowned experts as guests on the podcasts; to develop alternative

revenue streams to podcast subscription and to expand internationally; and to be an inspiration to people to live more healthy lives.

Mochrum’s most recent performance dashboard is included in Appendix 1. The owners use this report to monitor Mochrum’s performance on a monthly basis. One of the owners, who acts as the chief executive officer (CEO), has asked you to undertake two pieces of work:

- Evaluate if the performance dashboard is fit for purpose in relation to showing whether Mochrum is achieving its aim and objectives
- Assess if, through the manner of presentation of the dashboard and through the narrative commentary, the dashboard suffers from information overload

3 Appendix 1



Requirements:

It is now 1 September 20X5.

You are a performance management consultant appointed by the CEO of Mochrum.

Respond to the CEO of Mochrum’s instructions for work on the following areas:

(a) Performance dashboard

Note: There are 15 marks available for the first piece of this work required in this area and 5 marks available for the second piece of the work required in this area.

(20 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, scepticism and commercial acumen in your answer.

(5 marks)

(25 marks)

Question 3

The following **exhibits** provide information relevant to the question:

1. Company information – industry information and mission for the company: Usge Software (Usge)
2. Data silos – details of work required on the challenges of data silos in Usge
3. Big data – information related to work needed on the potential difficulties of big data management in Usge

1 Company information

Usge Software (Usge) is a listed company in Teeland which provides software platforms and data storage solutions to companies. Usge's software platforms are used by companies to sell tickets and take bookings on their websites. Usge's clients are hotels, airlines, restaurants and sporting clubs. Usge also provides data storage solutions to its clients and holds the data on individual customers who makes a purchase on the website of the restaurant, hotel, airline or sporting club which it provides a software platform to.

Usge is not a company which would be known to the individual customers making the booking or purchasing tickets, but it is a company which is well known to the sporting clubs, airlines, hotels and restaurants, who are its clients.

Usge provides its service on a global basis. It has few competitors, but competition is fierce in the industry, as the industry consists of a few very large companies.

2. Data silos

Usge is organised on a regional basis. The global operations are split into four geographical regions. Within each region there is a similar structure which consists of an administrative head office function with distinctive departments of sales, marketing, innovation and development, and service maintenance.

Usge's head office maintains data on the financial performance of each area within each region and holds a central data warehouse which holds all data relating to each of Usge's clients. The central data warehouse also holds the data from the individual customers who purchase tickets or make bookings on Usge's platforms. The regional directors use the central data warehouse to enable them to undertake data-driven decision-making.

The individual departments each have their own data systems and collect and store data as follows:

Sales	All new client enquiries are made either through sales staff or through the sales department website. The sales department holds data on all existing clients and all current client enquiries. Information is not transferred to the central data warehouse until a service is sold to a new client.
Marketing	The marketing department holds data on all marketing expenditure, the marketing budget, and other information it has gathered on clients and potential clients. There is no formal mechanism to share this data with the other departments or the data warehouse.
Innovation and development	The innovation and development department maintains data on client requirements. Data on specific client requirements is transferred from the sales department. Data on market developments and client requirements within the marketplace is gathered from research undertaken by the innovation and development department. This department also maintains data on staff training.
Service maintenance	The service maintenance department retains data on the service levels required by, and service undertaken for, each major client.

The chief executive officer (CEO) of Usge has heard of the term ‘data silo’ and has asked you to assess the problems which data silos may create for Usge.

3. Big data

The data Usge holds on its client’s customers is usually only the customers’ addresses and the details of the card which was used for the financial transaction.

Two years ago, Usge introduced an additional feature on its platforms which enabled customers to leave reviews of their stay at the hotel, the airline flight, the meal at the restaurant or the experience or sporting event which they had booked. Customers are encouraged to leave these reviews after the event has taken place and can be comprised of photos, voice notes, written posts or videos. The reviews are personal in nature as they reflect the experience of the individual customer undertaking the review.

Usge is aware that, through this additional feature, it now holds a great deal of data on customer preferences, and it intends to use this data as part of its attempt to sell its software services to other hotels, airlines, hotels and sporting clubs. Specifically, Usge plans to package the data which it holds into a ten-minute video which aims to show how

easily those reviewing the event can use Usge’s software platform to communicate their experiences to other users.

Usge’s CEO has a friend who works at a similar level in a different company and this friend made the following statement “Usge might find it challenging to condense all that data into a useful 10-minute video package. I think you will have a problem here with the management of big data and, to some extent, with the ethical use of that data in your final 10-minute video.”

The CEO has asked you to evaluate the challenges Usge faces in the management of big data and to briefly assess the ethical issues arising from the use of the data held by Usge in the video.

Requirements:

It is now 1 September 20X5.

You are a performance management expert working in Usge.

Respond to the CEO of Usge’s instructions for work on the following areas:

(a) Data silos

(8 marks)

(b) Big data

(12 marks)

Professional marks will be awarded for the demonstration of skill in scepticism and commercial acumen in your answer.

(5 marks)

(25 marks)