CIMA 2019 Professional Examinations

Strategic Level

Subject E3

Strategic Management

EXAM PRACTICE KIT

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OBJECTIVE TEST QUESTIONS

EXAM TECHNIQUES

COMPUTER-BASED ASSESSMENT

Golden rules

1 Make sure you have completed the compulsory 15-minute tutorial before you start the test. This tutorial is available through the CIMA website and focusses on the functionality of the exam. You cannot speak to the invigilator once you have started.

2 These exam practice kits give you plenty of exam style questions to practise so make sure you use them to fully prepare.

3 Attempt all questions, there is no negative marking.

4 Double check your answer before you put in the final answer although you can change your response as many times as you like.

5 Not all questions will be multiple choice questions (MCQs) – you may have to fill in missing words or figures.

6 Identify the easy questions first and get some points on the board to build up your confidence.

7 Attempt ‘wordy’ questions first as these may be quicker than the computation style questions. This will relieve some of the time pressure you will be under during the exam.

8 If you don't know the answer, flag the question and attempt it later. In your final review before the end of the exam try a process of elimination.

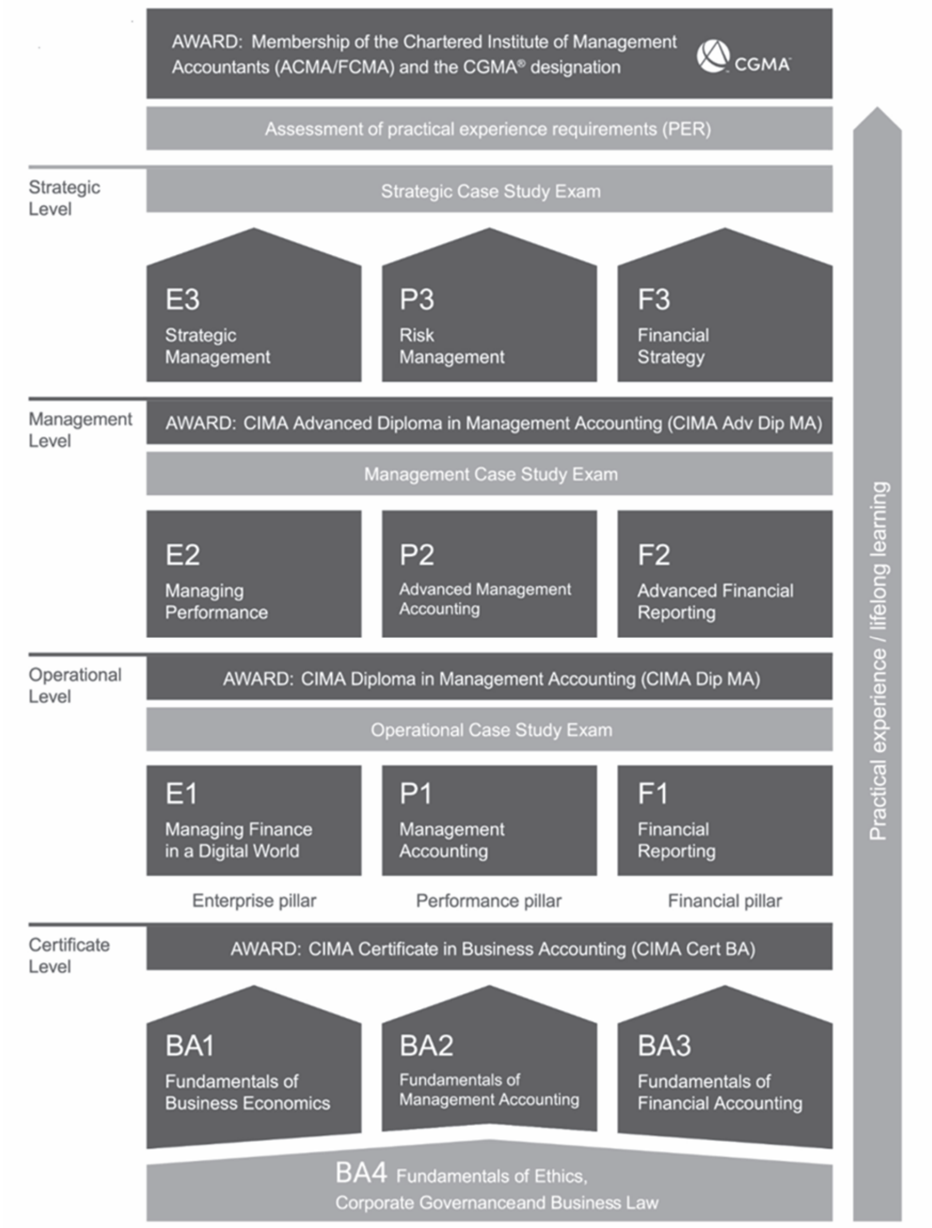
9 Work out your answer on the whiteboard provided first if it is easier for you. There is also an onscreen ‘scratch pad’ on which you can make notes. You are not allowed to take pens, pencils, rulers, pencil cases, phones, paper or notes into the testing room.

SYLLABUS GUIDANCE, LEARNING OBJECTIVES AND VERBS

A CIMA 2019 PROFESSIONAL QUALIFICATION

Details regarding the content of the CIMA 2019 professional qualification can be located within the CIMA 2019 professional qualification syllabus document.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress. Make sure you carefully review the 2019 CIMA syllabus transition rules and seek appropriate advice if you are unsure about your progression through the qualification.



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B STUDY WEIGHTINGS

A percentage weighting is shown against each exam content area in the exam blueprint. This is intended as a guide to the proportion of study time each topic requires.

All component learning outcomes will be tested.

The weightings do not specify the number of marks that will be allocated to topics in the examination.

C LEARNING OUTCOMES

Each subject within the qualification is divided into a number of broad syllabus topics. The topics contain one or more lead learning outcomes, related component learning outcomes and indicative knowledge content.

A learning outcome has two main purposes:

1. to define the skill or ability that a well-prepared candidate should be able to exhibit in the examination
2. to demonstrate the approach likely to be taken by examiners in examination questions.

The learning outcomes are part of a hierarchy of learning objectives. The verbs used at the beginning of each learning outcome relate to a specific learning objective, e.g. Evaluate alternative approaches to budgeting.

The verb 'evaluate' indicates a high-level learning objective. As learning objectives are hierarchical, it is expected that at this level students will have knowledge of different budgeting systems and methodologies and be able to apply them.

The examination blueprints and representative task statements

CIMA have also published examination blueprints giving learners clear expectations regarding what is expected of them. This can be accessed here www.cimaglobal.com/examblueprints

The blueprint is structured as follows:

- Exam content sections (reflecting the syllabus document)
- Lead and component outcomes (reflecting the syllabus document)
- Representative task statements.

A representative task statement is a plain English description of what a CIMA finance professional should know and be able to do.

The content and skill level determine the language and verbs used in the representative task.

CIMA will test up to the level of the task statement in the objective test (an objective test question on a particular topic could be set at a lower level than the task statement in the blueprint).

The format of the objective test blueprints follows that of the published syllabus for the 2019 CIMA Professional Qualification.

Weightings for content sections are also included in the individual subject blueprints.

A list of the learning objectives and the verbs that appear in the syllabus learning outcomes and examinations follows and these will help you to understand the depth and breadth required for a topic and the skill level the topic relates to.

CIMA verb hierarchy

Skill level	Verbs used	Definition
Level 5 **Evaluation** How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify
	Assess	Evaluate or estimate the nature, ability or quality of
	Evaluate	Appraise or assess the value of
	Recommend	Propose a course of action
	Review	Assess and evaluate in order, to change if necessary
Level 4 **Analysis** How you are expected to analyse the detail of what you have learned	Align	Arrange in an orderly way
	Analyse	Examine in detail the structure of
	Communicate	Share or exchange information
	Compare and contrast	Show the similarities and/or differences between
	Develop	Grow and expand a concept
	Discuss	Examine in detail by argument
	Examine	Inspect thoroughly
	Interpret	Translate into intelligible or familiar terms
	Monitor	Observe and check the progress of
	Prioritise	Place in order of priority or sequence for action
	Produce	Create or bring into existence
Level 3 **Application** How you are expected to apply your knowledge	Apply	Put to practical use
	Calculate	Ascertain or reckon mathematically
	Conduct	Organise and carry out
	Demonstrate	Prove with certainty or exhibit by practical means
	Prepare	Make or get ready for use
	Reconcile	Make or prove consistent/compatible
Level 2 **Comprehension** What you are expected to understand	Describe	Communicate the key features of
	Distinguish	Highlight the differences between
	Explain	Make clear or intelligible/state the meaning or purpose of
	Identify	Recognise, establish or select after consideration
	Illustrate	Use an example to describe or explain something
Level 1 **Knowledge** What you are expected to know	List	Make a list of
	State	Express, fully or clearly, the details/facts of
	Define	Give the exact meaning of
	Outline	Give a summary of

D OBJECTIVE TEST

Objective test

Objective test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of objective test question you will see are:

- Multiple choice, where you have to choose the correct answer(s) from a list of possible answers. This could either be numbers or text.
- Multiple response, for example, choosing two correct answers from a list of eight possible answers. This could either be numbers or text.
- Fill in the blank, where you fill in your answer within the provided space.
- Drag and drop, for example, matching a technical term with the correct definition.
- Hot spots, where you select an answer by clicking on graphs/diagrams.

Guidance re CIMA on-screen calculator

As part of the CIMA objective test software, candidates are now provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in each of the objective tests and is accessed by clicking the calculator button in the top left hand corner of the screen at any time during the assessment. Candidates are permitted to utilise personal calculators as long as they are an approved CIMA model. CIMA approved model list is found here: https://www.cimaglobal.com/Studying/study-and-resources/.

All candidates must complete a 15-minute exam tutorial before the assessment begins and will have the opportunity to familiarise themselves with the calculator and practise using it. The exam tutorial is also available online via the CIMA website. Candidates can use their own calculators providing it is included in CIMA's authorised calculator listing.

Fundamentals of objective tests

The objective tests are 90-minute assessments comprising 60 compulsory questions, with one or more parts. There will be no choice and all questions should be attempted. All elements of a question must be answered correctly for the question to be marked correctly. All questions are equally weighted.

SYLLABUS GRIDS

E3: Strategic Management

Formulate strategy and create conditions for successful implementation

Content weighting

Content area		Weighting
A	The strategy process	15%
B	Analysing the organisational ecosystem	20%
C	Generating strategic options	15%
D	Making strategic choices	15%
E	Strategic control	20%
F	Digital strategy	15%
		100%

E3A: The strategy process

Strategy is at the heart of what organisations do. This section provides the foundation of strategic management for the organisation. It introduces the strategy process that is elaborated on in the rest of the subject.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Explain the purpose of strategy.	a. Define strategy. b. Explain the purpose of strategy.	• Different definitions of strategy • Essential features and characteristics of strategy	This section introduces the rest of E3. It provides the various definitions of strategy and outlines its essential features and characteristics. It discusses the different types and levels of strategy and the leaders who have responsibility for them. Finally, it looks at the strategy process from both the rational and emergent perspectives.
2. Discuss the types and levels strategy.	Discuss a. Types of strategy b. Levels of strategy	• Intended and emergent strategy • Corporate, business and functional strategies	
3. Outline the strategy process.	a. Outline the rational and emergent processes of arriving at strategy.	• Analysis of organisational ecosystem • Generating options • Strategic choice • Strategic control	

E3B: Analysing the organisational ecosystem

Every organisation inhabits an ecosystem within which it adapts and evolves. This ecosystem comprises markets and society, has its players and its own system of governance. Organisations can also join with others to form a smaller ecosystem within the broader one to reflect their strategic preferences. This section provides candidates with an understanding of the dynamics of the ecosystem (both the wider and the smaller more deliberate ones formed by organisations) and how it affects the strategy of the organisation.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Analyse the elements of the ecosystem.	Analyse a. Markets and competition b. Society and regulation	• SWOT analysis • PESTEL analysis • Competitor analysis • Customer analysis • Wider ecosystems • Industry ecosystems	What types of markets do organisations operate in? What are the 'rules of the game' in these markets? What are the sources and opportunities for disruption in the market? How does society regulate the markets and provide 'permission to play' for organisations?
2. Discuss drivers of change in the ecosystem.	Discuss the following drivers of change: a. Institutional and systemic b. Social c. Market d. Technology e. Sustainability	• Globalisation • Geopolitics • Demography • Customer empowerment • Digital technology • Automation	What are the drivers of change in the ecosystem? How are the individual drivers linked? What type of outcomes do they bring individually and collectively? What risks and opportunities do they bring organisations?
3. Discuss the impact of the ecosystem on organisational strategy.	a. Discuss the impact of strategic networks and platforms on organisational strategy b. Conduct stakeholder analysis in networks	• Value creation in ecosystems • Participants and interactions in networks and platforms • Technology enablers in networks • Process of creating networks and platforms • Stakeholder analysis in networks • Corporate social responsibility	In a digital world what is the importance of networks and platforms? What are the roles, interactions, and governance systems in the ecosystems? Who are the key players? How does this affect the business model of organisations?

E3C: Generating strategic options

Strategy is about choice of options. These options must be generated and developed based on the dynamics of the ecosystem in which the organisation operates and the foundational contexts of the organisation (e.g. its purpose, values etc). This section covers how options are generated and links them to the purpose, values and vision of the organisation. In addition, it looks at the role of various parts and levels of the organisation in the strategy process.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Discuss the context of generating options.	Discuss: a. The role of governance and ethics in the strategy process b. The purpose, vision and values of the organisation and their impact on strategy	• Roles and responsibility of leaders of organisations for strategy • Definition of purpose, vision and values of organisations • Linkage between purpose, vision and values to each other and to strategy	Who is responsible for various aspects of the strategy formulation process? How are those roles determined and governed? How does the organisation derive its purpose, vision and values? What processes exist to ensure that strategy is based on and/or are aligned to these?
2. Discuss how to generate and develop options.	Discuss how to: a. Frame key strategic questions b. Diagnose organisation's starting position c. Forecast potential organisational operating ecosystem d. Use various frameworks to generate options	• Product/market matrix • Generic strategies • Trend analysis • System modelling • Scenario planning • Tangible and intangible value drivers and data to measure them • Game theory perspectives • Real option perspectives	What are the core strategic questions to ask and what are the criteria and constraints for asking them? What is the organisation's starting point? Where and how does it make money? What potential futures might it inhabit and what are the forces potentially driving these futures? What are the potential pathways to this future? What new business models are in play?

E3D: Making strategic choices

Once options have been generated in various areas of the organisation's operations the organisation has to choose between the alternatives. The choice is based on predefined criteria and an evaluation of the options against these criteria. The various options chosen must then be integrated into a coherent whole to form the organisation's strategy. This section covers how the options are evaluated, chosen and integrated coherently to form the strategy of the organisation.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Evaluate options.	a. Develop criteria for evaluation. b. Evaluate options against criteria. c. Recommend appropriate options.	• Suitability, acceptability and feasibility framework	What are the different criteria to guide the choice of options, one how are they prioritised and why?
2. Produce strategy by the integration of choices into coherent strategy.	Conduct: a. Value analysis b. Portfolio analysis	• Value chain analysis • Managing product portfolio	What are the criteria to ensure effective integration and why? What are the trade-offs to be made when putting the individual choices together? How does one ensure integrated thinking?

E3E: Strategic control

Once strategy has been formulated, it has to be implemented. This involves developing and communicating action plans, allocating resources and monitoring the implementation of the plans. In addition, implementing strategy involves significant change. The nature of these changes should be evaluated and appropriate ways of managing change have to be developed and implemented. This section examines how these implementation objectives are achieved and how change is managed.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Develop strategic performance management system.	a. Develop detailed action plans b. Communicate action plans c. Monitor implementation d. Align incentives to performance	• Action plans • Target setting • Critical success factors (CSFs) • Key performance indicators (KPIs)	How does the organisation prepare the grounds for executing strategy? How does it create and communicate action plans for implementation? How is the whole organisation mobilised, motivated and incentivised to implement the plans? What role can integrated reporting play?
2. Advise on resource allocation to support strategy implementation.	a. Advise on resource availability b. Align resource allocation to strategic choices	• Audit of key resources and capabilities required to implement strategy • Matching resources to strategy	What are the resources needed to implement strategy? Where are the resources needed? How does the organisation re-align resource allocation from existing units or projects to new ones that match the strategic choices made?
3. Recommend change management techniques and methodologies.	a. Assess impact of strategy on organisation b. Recommend change management strategies c. Discuss the role of the leader in managing change	• Types of change • Impact of change on organisational culture • Resistance to change • Approaches and styles of change management • Role of change leader in communication	What is the impact of the new strategy on the whole organisation, parts of the organisation and partners of the organisation? What transformation is required and how does the organisation drive these changes?

E3F: Digital strategy

Strategy takes place within specific organisational contexts and ecosystems. The primary characteristics of the current context is digital transformation. Organisations need to think through their approach to strategy within this perspective. This section covers how to introduce thinking about digital transformation in the strategy of organisations.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Describe the governance of digital transformation.	a. Describe the roles and responsibilities of the board and executive leadership in digital strategy.	• Role of board and senior leadership in digital strategy	Who is responsible for leading the process of digital transformation? What is their role in the process and why?
2. Analyse digital transformation.	Analyse a. Digital technologies b. Digital enterprise	• Cloud computing • Big data analytics • Process automation • Artificial intelligence • Data visualisation • Blockchain • Internet of things • Mobile • 3-D printing	What are the technologies that underpin digital transformation? How are they evolving and what impact do they have on the organisation and its immediate and wider operating environment? What type of organisation do such technologies create? What are the elements of the business and operating models of such digital enterprises.
3. Discuss the various elements of digital strategies.	Discuss: a. Economics of digitisation b. Digital ecosystems c. Digital consumption d. Data and metrics e. Leadership and culture	• Business case for digital transformation • Participants, interactions and dynamics of ecosystem and impact on strategy • Trends in consumption (e.g., hyper personalisation, move from products and services to experience) • New metrics (scale, active usage and engagement metrics) • Leadership in digital transformation	What is the economic and business case for digitisation? How does the organisation create partnerships in the ecosystem to ensure strategic success? What are key trends underlying the consumption of the organisation's products and services by customers and consumers? What data and metrics should organisations use to evaluate success of digital enterprises? How should leaders and their organisations think, act and react differently because of digital transformation?

Section 1

OBJECTIVE TEST QUESTIONS

THE STRATEGY PROCESS – 15%

THE PROCESS OF STRATEGY FORMULATION

1 Q plc currently sells its product in two major markets – Europe and Asia. While it is a market leader in Europe, Q has struggled to penetrate the more competitive Asian market. It has therefore decided to pull out of Asia entirely and focus on its European markets.

Which ONE of the following levels of strategy does Q's decision relate to?

A Business

B Functional

C Operational

D Corporate

2 HY Ltd manufactures lamps in country L.

Which ONE of the following is consistent with an operational level strategy?

A Decision to launch a new range of novelty light bulbs

B Expansion into selling all HY goods in country F

C Creation of a new marketing campaign for HY's range of table lamps

D Decision to reduce floor lamp prices to match a competitor

3 X is a small conglomerate, consisting of a holding company based at a head office in the capital city of the country and five subsidiaries, each based in a different city. The subsidiaries operate in different industries, but X believes that it adds value by providing excellent top level management and consistent support systems.

X has recently acquired E, a manufacturing company. The CEO of X has arranged a meeting with the Board of E to discuss E's generic strategy, as the CEO believes that a change from cost leadership to differentiation would be appropriate. The Operations Director of E is also attending the meeting, to explain to the Board of E how the Management Information System of X Group is to be introduced to E.

Analyse the information provided about X, and categorise the following elements of strategy:

The decision, by X, to acquire E, is an example of _____1_____ strategy.

The implementation of common information systems, throughout the X group, is an example of _____2_____ strategy.

The decision whether to pursue cost leadership or differentiation within E is an example of _____3_____ strategy.

Use the terms below to fill in the missing words in gaps 1 and 2.

Note that each term can be used more than once.

A Business

B Functional

C Corporate

4 AHQ has recently decided to install a new IT system to improve the efficiency of its payroll function. AHQ believes this will reduce the cost of running the payroll system by 15%.

Which ONE of the following levels of strategy is the above IT system most closely linked to?

A Functional

B Corporate

C Business

D Strategic

5 One of the problems with formal planning processes is that an organisation's analysis of its position is likely to be incomplete, leading to ineffective strategies being selected. This issue is known as _____________.

Which ONE of the following two-word terms fills the gap in the sentence above?

A Bounded rationality

B Operational inefficiency

C Rational model

D Management distrust