CIMA E2 – Supplementary Notes

Chapter 1

Factors driving customer demand in the digital age - Section 4.1.1 page 15 (after section 4.1 which begins on page 14)

- **Contextualised interactions** – Customers demand products and services that are tailored to their needs.
- **Seamless experience across channels** – Customers purchasing products and services online expect the process of researching, ordering, paying and taking receipt of their purchase to be seamless.
- **Anytime, anywhere** – Customers want access to greater levels of information and data about products and services, from product/service specifications through to available inventory levels, booking availability, and the ability to track their orders once made, cloud computing is helping to drive this trend.
- **Great service** – Customers are not as loyal as they once were, and are increasingly prepared to shop around for the products and services they want.
- **Self-service** – Customers are increasingly inclined to spend longer getting the products and services that they want, and as such organisations need to be prepared to develop their product and service offerings to go beyond simply adapting their existing offering.
- **Transparency** – Customers are increasingly protective over sharing their personal information with organisations when purchasing products and services. They expect organisations to look after the personal information/data they hold about them.
- **Peer-review and advocacy** – Customers are more inclined to read product and service reviews left by previous purchasers/users of an organisation’s products and services. This places an expectation on organisations to become proactive in managing their responses to customer communications and reviews, as bad reviews can have severe detrimental effects on reputations.

The need to keep ahead of customers - Section 4.1.2 page 15 (after the new section 4.1.1 on page 15)

The need to keep ahead of customer expectations requires organisations not to become complacent with their product and service offering. Complacency can be avoided by taking account of the following:

- **Design thinking** – Organisations need to adjust their mindset from one of simply producing a single product or offering a single service to designing a broader range of experiences for the customer. To do this successfully, organisations need to be able to learn and adapt as the needs of their customers inevitably change.
- **Experiential pilots** – Organisations need to become adept at monitoring how their customers behave so that they are better placed to understand their appreciation and openness to new experiences. Organisations need to be alert of the need to continuously innovate their offerings, and prototype new products and services so that they are better placed to understand customer reactions.
• **Prototyping** – Getting products and services to market quickly is vitally important. Organisations need to be prepared to launch early generations of the products and services they provide (even if not fully ready) so that they can gain customer feedback and incorporate this into future versions.

• **Brand atomisation** – Products/services need to be designed so that they can be more widely distributed, and offered on multiple platforms.

**Regulating ecosystem environments - Goes in as part of Section 3.2 on page 9 (after the real-life example which currently finishes at the top of page 9)**

The emergence of ecosystem environments has presented traditional, slow-changing industries with some challenges particularly in relation to issues of regulation. Unlike traditional industries, which have become conditioned to following rules governing relevant areas of business, newer ecosystem environments have broken down traditional industry boundaries. Traditional regulatory frameworks are being challenged by the emergence of ecosystems in a number of ways:

• The **speed of change** in ecosystem environments caused by significant data sharing, constant innovation and collaboration presents regulators with challenges in protecting the privacy of consumers whose data may be used in ways not originally envisaged.

• **Innovators find ‘back doors’** in ecosystem environments and are therefore able to constantly challenge existing regulations. This is evident in the so-called ‘gig economy’ where employment legislation is being challenged by new start-ups keen to avoid recognising workers as employees. Classifying workers as sub-contractors allows firms to save on holiday and sick pay entitlements, and other employment costs.

• **Ecosystems continually evolve**, and as such regulators need to develop rules and regulations which are capable of containing undesirable patterns of behaviour beyond the here and now, and into the future.

• **Ecosystems are global** and organisations operating within them are increasingly likely to transcend the legal frameworks in operation in one country. This is also true in respect of the diminishing boundaries between the laws governing physical products and services, and those which are provided digitally. Developing truly global regulations is a particular challenge.
Disruptive technology is the term used to describe technology which has ‘disrupted’ traditional ways of doing things. Examples of different types of disruptive technology are discussed below, they build on our earlier discussion of technological trends.

**FinTech**

Financial technology, or FinTech, is having a major impact on the world of finance and is growing fast, with many predictions that it will mean extensive disruption to established businesses in this area. Examples of FinTech include:

- Peer-to-peer lenders replacing banks for lending and saving
- Peer-to-peer money transfer services replacing banks for money transmission and foreign exchange
- Firms providing payment security and verification
- Financial advice driven by algorithms, offered at much lower cost than traditional advisors
- App-based insurance companies
- Digital-only start-up banks, with no legacy of branch networks, call centres or complex systems

Start-up businesses in these areas will face intense competition from established banks, who are determined that they will survive and are investing heavily in this area.

**Blockchain**

Blockchain is a public form of bookkeeping that uses a digital ledger to allow individuals to share a record of transactions.

Blockchain is a type of incorruptible distributed ledger that allows information to be recorded and shared with a network of individuals. In essence, Blockchain is a public form of bookkeeping which makes use of internet technologies to instantly verify and record the transactions that take place between individuals. The public nature of blockchain means that every individual can view the transactions made by participants in that network. This means that participants can view the date, time, value of transactions, and the individuals involved, thereby creating a shared record of events.

It is anticipated that blockchain will have a disruptive impact on a wide range of industries as it increases the levels of transparency over transactions. Greater use of blockchain should allow organisations including firms of accountants and auditors to more easily verify the transactions undertaken by clients when preparing (and auditing) financial statements.

The use of blockchain should also make it easier for accountants to verify the background and transactional history of prospective new clients, especially when undertaking money laundering procedures. Blockchain will also be beneficial to providers of finance as they will be able to make more informed decisions about which prospective clients they should lend to.

**Cryptocurrency**

Cryptocurrency is a digital currency, which uses internet technologies to facilitate transactions made online. Cryptography is a key feature of cryptocurrency.

Cryptocurrencies are a form of digital currency which do not exist in physical form, Bitcoin and Ethereum are two of the best-known cryptocurrencies. A key feature of cryptocurrency is that it makes use of the science of cryptography. Cryptography involves encrypting the code behind digital currencies so that they cannot be counterfeited by criminals. Cryptocurrencies have had a disruptive effect on traditional banking systems as they are not controlled by a central bank in the same way as conventional currencies. This lack of control has led to dramatic fluctuations in the value of cryptocurrencies as they are traded and exchanged around the world.

Cryptocurrencies work in a similar way to conventional currencies in as much that they can be used to pay for (and to receive payments for) goods and services purchased online. Transactions made using cryptocurrencies make use of
blockchain technology, which as discussed above helps to ensure that all transactions made between participants are verified and recorded on the distributed ledger.

Cryptocurrencies are having a disruptive effect on traditional payment methods as an increasing number of companies have started to accept Bitcoin payments on certain purchases. As the use of cryptocurrencies gradually becomes commonplace it is predicted that this will have a disruptive effect on organisations as they are forced to develop their IT infrastructures to be capable of accepting cryptocurrency payments.

**Big data**

*Big data:* 'Is a popular term used to describe the exponential growth and availability of data, both structured and unstructured.' (SAS, 2016)

**The Vs of big data**

SAS (2016) cite the work of Laney (2000), who suggested that big data can be defined by considering the three Vs: volume, velocity and variety. The three Vs have now been extended to include veracity. It is important to note that other authors may refer to other terms when discussing big data, however in this section we shall focus solely on the four Vs.

![Diagram of the four Vs of big data: Volume, Variety, Velocity, and Veracity](image)

**Digital assets**

Digital assets are items which are not available in physical form. Examples of digital assets include: computer files such as PDFs and images, audio files such as MP3s, and video files. The widespread use of digital assets has given rise to the growth in the use of digital asset management systems (DAMs) which act as centralised repositories in which different types of digital asset can be stored.
When thinking about how to deal with digital disruption there are five trends according to the World Economic Forum (2016a) that business leaders are encouraged to focus on (some of these were discussed above):

- **The internet of me** – users must be placed at the centre of a personalised digital experience
- **Outcome economy** – customers are attracted to outcomes, not just products
- **The Platform (r)evolution** – the evolution of platforms is speeding up all of the time, offering opportunities for innovation and faster service delivery
- **The intelligent enterprise** – organisations should harness data to increase innovation and efficiency
- **Workforce reimagined** – as AI grows human resources should be deployed in different ways, not removed altogether
Goleman (2000) suggested that six styles of leadership exist, arguing that an effective leader is one that is capable of embracing the style most relevant to any given situation.

<table>
<thead>
<tr>
<th>Style</th>
<th>Features</th>
<th>Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visionary</td>
<td>The leader is a good communicator and is forward-thinking. Is able to inspire.</td>
<td>Appropriate during times of change, for example, when a new strategy needs to be implemented.</td>
</tr>
<tr>
<td>Coaching</td>
<td>The leader is effective at developing individuals in terms of improving future work performance.</td>
<td>Appropriate in cases where a particular employee wants to develop their career.</td>
</tr>
<tr>
<td>Affiliative</td>
<td>The leader is effective at creating bonds with people and teambuilding.</td>
<td>Appropriate in situations where workforce morale needs improving.</td>
</tr>
<tr>
<td>Democratic</td>
<td>The leader is good at building consensus and encourages worker participation in decision-making.</td>
<td>Appropriate when new, fresh ideas are required.</td>
</tr>
<tr>
<td>Pacesetting</td>
<td>The leader requires workers to be self-driven and directed.</td>
<td>Appropriate in situations where motivating workers is required.</td>
</tr>
<tr>
<td>Commanding</td>
<td>The leader is direct and adopts a military approach where worker compliance is required. Offers little praise, but lots of criticism.</td>
<td>Appropriate during times of crisis.</td>
</tr>
</tbody>
</table>
Chapter 6

Internal control systems - Goes in as part of Section 2 on page 127 (under the ‘Controlling performance’ diagram currently on page 127)

Internal control systems are highly relevant to the concept of performance management as they exist to ensure that an organisation’s operations are performed according to plan. Internal control systems traditionally consist of two key elements:

- The control environment is the embodiment of the senior management’s approach to business, style and organisational policies.
- Control procedures are the mechanisms used by organisations to ensure control is maintained, they include: segregation of duties, authorisation limits etc.

Trust and control - Section 3.1.2 on page 131 (goes under section 3.1.1 which finishes at the top of page 131)

Trust between management and the workforce is an important factor in organisational control. When a high level of trust exists between management and the workforce this may result in less need for formal control mechanisms, as managers may feel satisfied that employees are doing what is expected of them. Achieving an equitable mix between trust and control will most likely involve a balancing act for most organisations.

Historically, organisations adopted formal mechanisms of control consistent with the scientific approach to management thinking. This however overlooked the human element of workplace relationships. Adopting an overly formal type of control, which requires workers to follow prescriptive rules, potentially heightens the scope for:

- Motivational issues to arise, as workers are restricted from using their initiative, which may increase staff turnover.
- Quality issues may occur as workers are less likely to ‘buy-in’ into the work they perform if they have limited input over how they conduct their work.
- Organisations don’t understand their workers. People in the workplace do not necessarily act as might be expected. Offering higher levels of pay does not guarantee that people will work harder.

Such issues are being overcome in part, through the use of empowerment and permitting staff greater flexibility in how they perform tasks, as well as encouraging workers to use their initiative.

Performance appraisal can be remembered using the TARA acronym - Section 4.1 – page 136 (goes under section 4.1 on page 136)

- Targets – Organisations must set targets which employees support and ‘buy into’. The successful use of targets ultimately hinges on their perceived achievability (or not).
- Actual results must be monitored – Managers should monitor the actual performance of employees during the review period and provide the subordinate with relevant feedback.
- Review – Once the review period has ended the manager and employee should have a formal appraisal to evaluate the employee’s performance. This will usually involve an evaluation of the employee’s performance against pre-determined targets.
- Action plan – New targets should be agreed between the manager and employee for the next review period.
Dismissal - Section 5.4 page 144 (after the current section 5.3.2 on page 144)

Dismissal is usually considered fair if an employer can show that an employee was dismissed for a particular reason. Reasons here can include:

- Matters relating to an employee’s conduct.
- Matters concerning an employee’s capability or qualifications relating to the role that they hold.
- Matters relating to a statutory duty which prohibits continued employment.
- Matters relating to a substantial reason which justifies the employer dismissing the employee.

Types of dismissal

Constructive dismissal occurs when an employee resigns because their employer’s conduct breaches their contract of employment, entitling the employee to resign and be treated as though they were in fact dismissed.

Wrongful dismissal is dismissal that breaches the contract of employment. An example would be failure to give the contractual period of notice (assuming the circumstances did not justify summary dismissal).

Unfair dismissal

The legal concept of unfair dismissal gives protection to the employee against arbitrary dismissal; that is, dismissal without good reason. The basic principle is that any dismissal is potentially unfair: once the employee has proved that they have been dismissed, the onus is on the employer to prove that the dismissal was fair.

Potentially fair grounds for dismissal include:

- Redundancy, provided that the selection for redundancy was fair
- Legal impediment: the employee could not continue to work in their present position without breaking a legal duty or restriction eg a bus driver who receives a driving ban
- Non-capability, provided adequate training and warnings had been given
- Misconduct, provided warnings suitable to the offence have been given
- Other substantial reason

Dismissal is regarded as automatically unfair by reason of:

- Unfair selection for redundancy
- Membership and involvement in a trade union
- Pregnancy
- Insisting on documented payslips and employment particulars
- Carrying out certain activities in connection with health and safety at work

Redundancy

Redundancy is defined as dismissal under the following circumstances.

- The employer has ceased to carry on the business at all
- The employer has ceased to carry on business in the place where the employee was employed
- The requirements of the business for employees to carry out work of a particular kind have ceased or diminished or are expected to.

Employees made redundant may be entitled to compensation. Compensation is a legal entitlement and encourages employees to accept redundancy without damage to industrial relations.
The concept of equity is closely connected to the theory of the psychological contract which was proposed by Rosseau and Greller (1994). It is not a written contract, but instead consists of the mutual expectations that exist in the employer-employee relationship. In essence, it is concerned with the relationship of giving and receiving between the individual and the employing organisation. There are three types of psychological contract:

- **Coercive** – This occurs where employees feel unfairly treated by their employer and do not regard the rewards received as adequate. Motivation is likely to be low in this type of contract.

- **Calculative** – This involves an employee voluntarily working in exchange for a reward. Motivation here can be increased if the rewards on offer are enhanced.

- **Co-operative** – Employees contribute greater levels of effort than is expected. They do this to help the organisation achieve its corporate objectives. Motivation and commitment are linked to the successful achievement of a task.
Chapter 10

Project change management process – Goes in as part of Section 3.1.2 on page 240 (after the table on page 240)

At the commencement of a project a process for managing project changes should be agreed. A project change management process might include:

- **An approach for prioritising project changes.** This may take the form of ‘must be done/ performed’ changes i.e. changes vital to the success of the project and those considered ‘nice to haves’, being those which would enhance the existing project work but are not considered essential.

- **Process for authorising changes to the project.** The individuals or groups that have the authority to agree changes to the project that need to be determined prior to change being required. Project stakeholders likely to be involved in authorising project changes may include the project sponsor or project committee.

- **Establishing a change budget.** Changing the scope and work of projects often leads to additional cost. As such a change budget detailing the extra costs involved needs to be produced.

- **Project changes should be recorded.** This ensures that there is an ‘audit trail’ of the changes made.

- **Communication.** When project change occurs, consideration needs to be given to the best method of communicating the changes to relevant stakeholders.

Configuration management – Goes in as part of Section 3.1.3 on page 240 (after point (d) in the list on page 240)

A configuration is a technical description, a complete specification of everything that is needed to bring a project to a successful conclusion. With complex projects, it is likely that frequent technical changes will be made: all these changes must be approved and documented. **Configuration management** controls the processes by which projects evolve.

Project issues governed by configuration management include:

- Controlling project documentation to avoid version control issues
- Assigning ownership and responsibility for project documentation
- Putting in place authorisation procedures to make changes to project documentation
- Tracking changes to project documentation
- Actively monitoring project records held to ensure that only required/ authorised documents are retained
- Maintaining control over accessing project records

Performance and conformance management

**Performance management** is vital in project work to ensure that every element of the project is delivered. Project performance can be assessed using measures covering:

- Scope
- Functional quality
- Technical quality
- Client (end user) satisfaction
Project quality can be measured using a **Project Quality Plan (PQP)** which outlines the required quality standards that the project is expected to achieve. The PQP sets out the procedures that need to be followed if the quality standards are to be met. A PQP may include the following areas, against which matters relating to quality can be considered:

- Risk assessment
- Project overview
- Project requirements
- Project organisation
- Monitoring and reporting procedures
- Key development stages and processes
- Quality assurance standards
- Testing strategy
- Procurement policy
- Configuration management

**Conformance management**

**Conformance management** is connected to the issue of project quality. Conformance management systems are concerned with: inspection, quality control, and quality assurance. These aim to ensure that the project adheres to the quality levels set out at the beginning of the project by considering project performance against quality standards, with any deviations investigated and corrective measures implemented.
Chapter 11

Breakdown structures – Goes in as Section 2.1.1 on page 254 (under current, section 2.1 on page 254, after the solution to the illustration)

The breakdown structure approach can also be applied to other aspects of project work:

- **Work Packages (WPs)** – Outlines the work to be performed for each area (package) set out in the WBS.
- **Statement of Work (SOWs)** – Sets out the deliverables from which the success of a project can be measured. It also specifies which member of the project team is responsible for delivering the work and by which point in time.
- **Product Breakdown Structure (PBS)** – Outlines the equipment (products) needed to complete specific project tasks.
- **Cost Breakdown Structure (CBS)** – Consists of cost-related information collected from the WBS, WP, SOW and PBS, in addition to capital and revenue elements. The CBS leads to the creation of the project budget.
Chapter 12

Project roles undertaken by CGMA’s might include: - Goes in as part of Section 4.1 on page 281 (under the paragraph in section 4.1 above the illustration page 281)

- Project manager
- Project sponsor
- Project customer/user
- Member of a project team
- Provider of financial information and data to the project team

Dispute management techniques – Goes in as Section 4.2.5 on page 284 (under section 4.2.4 on current page 284)

A number of techniques exist for managing disputes during projects:

- **Mediation** – Involves a third-party intervening to help project stakeholders in dispute resolve their differences.
- **Negotiation** – Involves project stakeholders entering into discussions to resolve matters under dispute.
- **Compromise** – This requires both project stakeholder groups in dispute to sacrifice something in order to overcome issues under dispute.
- **Partnering** – Involves establishing communications between project stakeholders in conflict with a view to getting a conversation going about how they can reach a common goal, as opposed to focusing on issues of self-interest.
Bibliography


