



© Copyright Reserved

Serial No.....

Institute of Certified Management Accountants of Sri Lanka
Strategic Level
October 2017 Examination

Examination Date : 5th November 2017 **Number of Pages :** 04
Examination Time: 9.30 a.m. – 12.30 p.m. **Number of Questions:** 05

Instructions to Candidates

1. Time allowed is **three (3) hours**.
2. Total: **100** Marks.
3. Answer **all** questions in Part I and **three (3)** questions from Part II.
4. The answers should be in **English Language**.

<u>Subject</u>	<u>Subject Code</u>
Business Strategy and Policy	(BSP / SL 2 – 402)

PART I

Answer **all** questions

Question No. 01 (40 Marks)

Bounty (Pvt) Ltd (BPL) is a company started by Dhammika Gunawardhana, a Chemist by profession in the late 1990's. The company commenced its operations in the confectionery industry, the factory being located in Ratmalana equipped with main items of toffee making machinery imported from the UK. BPL launched a range of toffees under the brand name 'Bounty' and gained popularity in quick time aided by few lead products in their product range that has chocolate and caramel mixes. One of the prominent members of the top management of this business from its inception was Thilak Daluwatte, the 'Director- Operations' under whose purview the total 'manufacturing' and 'quality management' functioned and also owning twenty percent of the company's equity. He is considered to be a production specialist who firmly believes that BPL products are of superior quality.

By the year 2010, the company has emerged as the second largest competitor in the market for toffees in the confectionery market and has been able to develop a strong network of confectionery distributors consisting of wholesalers and retailers. BPL will directly deal with their contingent of island wide distributors who will make their purchases backed by bank guarantees for whatever credit facilities they require and will appoint retailers considered to be having financial strength to buy the required volumes that will eventually help the achievement of wholesaler targets jointly agreed with the manufacturer, namely BPL. During an exploration tour in Europe in the year 2011 for new product developments in the area of BPL's operations, Dhammika seized an opportunity to enter the market for chocolates. He acquired necessary machinery and equipment to manufacture chocolates and expanded his business by incorporating a separate SBU {Bounty Chocolates (Pvt.) Ltd. (BCPL)} in 2012 as a subsidiary of BPL to manufacture and market a range of chocolates, utilizing spare capacity in his factory premises that only required an extension of the existing space to accommodate this new line of business. The directorate of both companies were identical apart from the fact that the two factories employed separate assistant factory managers and the separate sales teams that functioned under two marketing managers as marketing was considered to be a top priority of BPL's corporate philosophy. Even though Dhammika was a science graduate specialized in bio-chemistry with flair and a strong strategic marketing mind-set, he always occupied the pivotal board position of the marketing director, apart from functioning as the CEO of both companies.

In the year 2013 Dhammika met with a fatal accident during one of the marketing tours and his son Amitha assumed the responsibilities of the CEO. With ten years experience in the company's top level marketing activities, high degree of commitment and as the heir to the majority shareholding of the companies, he was the preferred choice of the founding director Thilak also, despite an age difference of nearly 30 years. With a masters degree in 'strategic marketing' Amitha has always maintained that the group needs to revisit the reward policies of the group and make necessary adjustments to bring about performance based staff appraisals and introduce variable pay as part of the remuneration packages, where applicable.

Amitha is also of the view that the group was too much oriented towards manufacturing operating in an industry with slowing growth and suggested that it needs to have a more balanced approach and also look in to attractive opportunities in trading that will enable the company exploit the established distribution channels and reduce production intensity that can also be affected by the chronic problems of skill worker scarcity that is currently affecting the country as a whole. Accordingly he proposed the introduction of importing and marketing a range of 'tooth brushes' and placed before the board a host of advantages behind this recommendation. He further supported his new product introduction proposal with market studies, possible economies of scope and accompanying financial forecasts. These ranges of products are to be introduced on 1st January 2018 and you were appointed as the group's management accountant in September 2016. Another proposal that has been evaluated, necessary feasibilities completed and now ready to be placed before the board for final approval is to go beyond the shores of country and expand the Bounty toffees and chocolates into South Indian and Maldivian markets. For these strategic initiatives an experienced export manager has been recruited and Amitha is of the view this is one sure way of overcoming limitations of the present capacity utilization of the group's production capacity. Some of the problems facing the confectionery industry are the growing health consciousness as well as the lack of population growth in the target market segments for BPL and BCPLs products.

You are required to:

- (a) Evaluate the possible advantages and disadvantages of the BPL's decision to create another SBU in 2012, to conduct the business affairs of the company. **(08 Marks)**
- (b) Apply Ansoff's growth vector matrix to identify the growth initiatives taken by BPL in 2012 and in late 2017 and explain the reasons supporting your answer under each of these. **(07 Marks)**
- (c) During the process of carrying out an environmental appraisal in the course of preparing the company's strategic plan, it is necessary that the company systematically identifies both environmental and internal factors that could impact the company's strategic agenda.
 - (i) Briefly explain what you understand by the term 'threats' in relation to strategic management and explain what is meant by 'socio -cultural forces' and demographic forces' in the area of environmental appraisal. **(06 Marks)**
 - (ii) Identify and explain two threats that can be classified under 'socio-cultural' and 'demographic' as discussed in the BPL case study and also briefly state the reasons behind your answer. **(04 Marks)**
- (d) The export manager of BPL and BCPL has recommended that the proposed market expansion in to South Indian markets will have to be through establishment of a strategic alliance with a suitable organization in South India in the form of 'franchising' as the preferred method of such alliance. Explain the obligations and inputs of the BPL as the franchiser, and the counterpart Indian organization as the franchiser that will lead to a successful alliance. **(08 Marks)**

- (e) (i) Comment on the current organizational structuring of the ‘quality management’ function of BPL and BCPL is operating under the ‘Operations Director. **(02 Marks)**
- (ii) Identify and explain strategic leadership characteristics that are displayed by Amitha as the newly elected CEO of the BPL Group. **(05 Marks)**
- (Total 40 Marks)**
- End of Part I

Part II

Answer any **three (3)** questions

Question No. 02 (20 Marks)

Excellent Freshness Ltd (EFL) is a trading organization that imports and distributes ‘electrical fans’ and markets many models from ceiling fans to table fans. Even though all versions of ceiling fans are fast moving, the range of table fans have higher gross profit margins though not as fast moving as the ceiling fans. Weather is considered to be one of the major drivers of demand that affect the marketing of fans of both categories namely ‘ceiling’ as well as ‘table’ fans.

The company recently had its annual planning sessions where marketing targets were discussed and agreed upon. EFL imports its products from a reputed manufacturer in India and the principal have a very disciplined ordering system for their distributors who will have to meet their annual purchasing volumes with an increase of 5% per annum each year.

The marketing manager of EFL has a team of regional sales managers for each region where Sri Lanka’s total marketing space is divided in to 20 areas and each area has an adequate number of sales representatives, depending on the marketing potential and distance they have to cover for their sales calls.

The managing director of EPL who has recently attended a seminar on strategic management along with the marketing manager wishes to receive your advice as follows:

- (a) Analyze the following statement in respect of EFL, made by the marketing manager during the planning sessions.
“Table fans are more profitable and therefore we must always try to maximize these sales”. **(04 Marks)**
- (b) (i) Distinguish between ‘long-term’ and ‘short term’ objectives for a commercial organization such as EFL. **(04 Marks)**
- (ii) Recommend three long term objectives that you propose to be established by the strategic planners of EFL. **(06 Marks)**
- (iii) Recommend and briefly explain a short-term objective that you propose, set to be achieved by Mr. Sumal, the sales manager of the north-east area of the western province, being one of the twenty areas of the market of EFL as discussed in the above scenario. **(06 Marks)**
- (Total 20 Marks)**

Question No. 03 (20 Marks)

- (a) Explain the importance of 'systems' in effective implementation of a company's strategy and illustrate your answer with a system that you have come across in your working life. **(05 Marks)**
- (b) Explain the concept of 'Business Process Re-engineering (BPR)' and discuss its role and how it can be applied for a financial organization engaged in granting leasing facilities and trying to improve its competitiveness. **(15 Marks)**

(Total 20 Marks)

Question No. 04 (20 Marks)

You have been recently appointed as the 'general manager' of a medium sized manufacturing organization- 'Ceylon Traditional Sweets (CTS)' a company that is manufacturing and exporting a range of traditional Sri Lankan sweets to the European markets. The shareholders of CTS have indicated that they would require a return on equity of 30% and its target debt /equity ratio is 30%.

The board of directors of CTS has requested you to present a paper that explains how you propose the strategic managers will practice effective strategic control in relation to the company. Illustrate your answer with relevant examples of application that is specific to CTS, where applicable.

(Total 20 Marks)

Question No. 05 (20 Marks)

Salora Ltd is a private limited company, an engineering services organization owned by members of the Gooneratna family, major shares being held by Harold who functions as the chairman of the company. The managing director and the CEO is a professional mechanical engineer and some of the members of the board are senior professional managers drawn from relevant disciplines such as Finance, Marketing and HR.

You are one of the management consultants to the chairman Harold and is required to evaluate and advise the owners of Salora Ltd regarding the following statements made by Travis one of the younger shareholders of Salora Ltd.

- (a) The board of directors are appointed by the shareholders to pursue interests of the owners of the company and therefore at all times be only responsible towards such effective owners. **(10 Marks)**
- (b) Because of this agent-principal relationship as described in a) above the owners can purely rely on such obligations by the board of directors. **(10 Marks)**

(Total 20 Marks)

End of Part II
End of Question Paper