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Serial No.....

Institute of Certified Management Accountants of Sri Lanka
Strategic Level
May 2018 Examination

Examination Date : 20th May 2018 **Number of Pages :** 05
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 & Risk Management	(BSR / SL 3 - 403)

PART I

Answer **all** questions

Question No. 01 (40 Marks)

Ravin Rambukwella, a wealthy individual currently in charge of Rambukwella family's business interests has always had an ambition to open up their own chain of restaurants, initially in Colombo and thereafter with a vision to expand it into all major cities in the country. As tourism in the country is gathering momentum aided by much needed international marketing efforts by several governmental organizations, Ravin envisions increasing prospects for a branded chain of restaurants providing quality Sri Lankan food, that will attract not only tourists but also the Sri Lankans prepared to pay a higher price for a sumptuous meal of local origin. Ravin's current involvement in the context of the Rambukwella family's business interests includes the following:

- Functioning as the Chairman of a Plantation company- Welimada Plantations Company (WPC) is a privatized plantation organization quoted in the CSE, consisting of Tea and Rubber estates; Tea estates mostly located in the Bandarawela, Welimada areas and the Rubber plantations in the Avissawella district. Ravin's family acquired the interests of this organization in 1985. Tea sector of WPC accounts for nearly 85 percent of the group's turnover and the Tea auction data indicates WPC's 'relative market share' as 2.0, when WPC's absolute number of kilos of Tea divided by that of the leading competitor of the comparable quality. WPC's Rubber sector enjoys a 'relative market share' of 0.7 computed on the same basis of Tea, as above. Despite holding the majority shareholding of the company, Ravin has appointed a professional planter as the CEO/Managing director who is entrusted with managing the company affairs. Always an advocate of good corporate governance he strengthened the board of directors by appointing senior professionals as independent directors who are entrusted with the leadership of key governance mechanisms such as Audit, Remuneration and Related –Party committees. Mostly as a result of fluctuating weather patterns as well as world market prices for Tea the company has experienced volatile returns and the average ROA (return on assets) is as low as five percent for this commodity despite Rubber showing a satisfactory ROA of over 10 percent. Nevertheless, the market for Tea seems to be growing over the last few years at a rate of nearly 15 percent as numerous recent research studies have shown considerable health benefits of consuming Tea. As much all other plantation companies, WPC is also

grappling with the lack of adequate skilled tea plucking workers as much as rubber tappers that has forced the company to abandon some fields on several estates. The experts estimate that rubber markets will continue to experience a low growth rate of only two percent in the foreseeable future. Some competitors have successfully converted parts of some of their rubber estates in to other crops such as 'Palm Oil'.

- Chairman of Welimada Nature Resorts (WNR), a fully- owned company of the family members: This company owns three hotels that were completed in 1995, mostly situated in and around Bandarawela/Welimada. Located in exotic locations, these hotels are considered to be preferred options of some up-market tourist segments of Japanese and European origins. Despite charging some premium prices commensuration with their up-market positioning and enjoying over a ' relative market share' of nearly 1.5 of this relevant segment and in this relevant geographic area (the corresponding figure last year was 2.5) ,still record an unsatisfactory return on assets (computed on the basis of applying market prices of the land, buildings and equipment).

Each hotel is managed by an assistant general manager (AGM) being responsible for administration that include purchasing as well as for the marketing functions and are responsible to the Head of Operations for the Hotel Sector. The chefs of each hotel under whom the kitchen staff of the respective hotels function also report to the Head of Operations of the hotel sector. The Chief Accountant under whom the accounting staff of all three hotels function is considered at the same hierarchical level as the Head of Operations and both reporting to the Chairman of WNR. The Chief Accountant has pointed out that the unsatisfactory profitability situation, as mentioned above is as a result of poor cost management on a variety of fronts , such as inefficiencies spanning from lack of centralized sourcing of certain food items like fish and meat and even other raw materials and ingredients. He has also commented on the lack of interest on the part of hotel administration to approach systematic purchasing processes of various food items such as fresh, locally grown vegetables through developing long-term relationships with the relevant local sources of supply that could bring about better cost economies. However, the Head of Operations of the hotel sector was quick to point out that most of the problems revolve around lack of capacity utilization during the off seasons as well as the calculation of the 'returns' have been based on market prices even though these assets were purchased several decades ago and the calculations should be based on average asset prices. He was of the opinion if the profitability computations adjusted for these anomalies will depict satisfactory returns. Furthermore according to him WNR is following a highly differentiated strategy and intense cost reduction is not considered a strategic priority as the hotels are currently charging premium prices. He is in complete agreement with the fact that that these hotels operate in a growth market and is wholeheartedly committed to achieve a growth in excess of 15 percent in the forthcoming periods. Ravin who regularly meets the principals of the overseas tour operators of WNR during his foreign tours, has also been informed of low customer loyalty due to excessive staff turnover of the hotels that may have affected the service quality.

- Welimada Fresh Juices Pvt ltd (WFJ) , is the latest addition to the group of companies that comes within the corporate level structure under the chairmanship of Ravin and the CEO of this company is Ravin's daughter Marina , a graduate with a first class honours degree in chemistry and with a masters degree in food science. This company manufactures and markets quality fruit juices from fresh fruits and are packaged and marketed in and around the central province of the country as Marina opts to operate as a small scale venture at a manageable scale that suits her personal life style as a fun loving individual and wishing to travel round the globe. Ravin's son Dulip as the youngest to enter the family business and an accountant by profession has concluded that company's share in the 'packaged, ready to drink beverages ' market/industry is almost negligible and even the growth rate of this market is on the decline as such drinking habits are considered harmful from the

perspective of health consciousness. Despite acknowledging the high quality of his sister's capabilities to manufacture and market fresh fruit drinks he was pointing out that a business in a low growth market with a low market share is considered a 'dog' in terms of the popular strategy analytical framework - 'BCG growth share matrix'. Adding to this disturbing situation is the fact that the company is operating below its break-even point and contributing by way of only losses to the corporate resources.

The company is equipped with quality machinery of European origin and depreciation accounting for high production overheads.

The group turnover for the year ended 31st December reached Rs. 1 bn mark for the first time with WPC accounting for Rs. 700 mn and WNR's share is Rs 250 mn and the balance contributed by Welimada Fruit Juices.

You are required to:

- (a) Present an outline of a BCG Growth Share Matrix to position the strategic business units of the Rambukwella family's business interests, that will provide insights from a corporate level perspective (Due to comparatively low sales of WFJ, you may exclude this SBU from the matrix.).

Identify a limitation of the BCG matrix that becomes evident from this case scenario. **(12 Marks)**

- (b) Critically assess the issues/ problems facing the Welimada Nature Resources Pvt Ltd and present your submission showing the hierarchy of effects and causes of these issues/ problems. (Key: identify the problems in order of their significance for the shareholders and the possible causes of these).

Advise three possible strategies that the company can consider adopting to improve their strategic performance. **(16 Marks)**

- (c) Critically assess the comments by Dulip in regard to the description of the market/industry to which 'Welimada Fruit Juices' company belongs. (Guide: A good answer will provide a clear description of the construction of your proposal that clearly highlight the constituent characteristics of a 'mission' to define a business comprehensively).

(04 Marks)

- (d) Propose an appropriate 'mission' that could be adopted by WFJ.

(08 Marks)

(Total 40 Marks)

End of Part I

Part II

Answer any three (3) questions

Question No. 02 (20 Marks)

'Shareholders are the legal and effective owners of a limited liability company as their investments only have enabled this organization to come into existence and most importantly they bear all the risk to which the company is exposed. However, by law there is a separation between such 'ownership' and 'management of such an organization. Accordingly shareholders have empowered a body referred to as 'board of directors' to manage affairs of the company within a mandate given by them. Hence an effective 'board of directors' and the top management will only have to be concerned of the interests of shareholders and reward them with an adequate return to compensate for the risks'.

P.T.O...

You are required to:

- (a) Critically analyze the above statement also explaining the relevance of ‘stakeholders’ in the context of strategic management. **(07 Marks)**
 - (b) Explain the concept of ‘triple bottom line’ philosophy and its application to building a sustainable organization. **(08 Marks)**
 - (c) Distinguish between ‘Long-term’ and ‘short-term’ objectives as applicable in relation to a business organization and illustrate your answer with the assistance of an examples. **(05 Marks)**
- (Total 20 Marks)**

Question No. 03 (20 Marks)

- (a) Often when we analyze the external environment of an organisation we apply the popular ‘PESTEL’ framework to understand the macro factors that more or less affecting all organizations. The letter ‘P’ denotes ‘political’ in this acronym. While most reputed, responsible organizations avoid favouring one political party against another, nevertheless it’s important to understand the political environment in the course of strategic analysis.
 - (i) Briefly explain the reasons why an organization should be concerned of political factors in formulating strategy. **(03 Marks)**
 - (ii) Identify two sources of ‘political risks’. **(06 Marks)**
 - (b) Categorize **three (3)** ways that ‘technological change’ can impact an organization that can have strategic implications. **(06 Marks)**
 - (c) The concept of a ‘strategic group’ is useful in conducting a competitor analysis. Explain the relevance of this concept when conducting such an analysis. **(05 Marks)**
- (Total 20 Marks)**

Question No. 04 (20 Marks)

The operations divisions of XYZ, a listed company, has the responsibility to maintain and support the sophisticated computer systems used for call centers and customer database management which the organization’s retail customers rely on as much of their sales are dependent on access to these systems, which are accessed over the internet.

Although there is no risk management department as such, XYZ has a large number of staff in the operations division devoted to disaster recovery. Contingency Plans are in operation and data are backed up regularly and stored off-site. However, pressure for short term profits and cash flows have meant that there has been a continuing under-investment in capital equipment.

A review of disaster recovery found that although data were backed up, there was a real risk that a severe catastrophe such as fire or flood would have wiped out computer hardware and although data backup was off-site, there was no proven hardware facility the company could use. While managers have relied on consequential loss insurance, they appear to have overlooked the need to carry out actions themselves to avoid or mitigate any possible loss.

P.T.O...

You are required to:

- (d) Advise the Board of Directors of XYZ as to the main business issue for XYZ and the most significant risks that XYZ faces. **(05 Marks)**
 - (e) Advise the Board of Directors of XYZ as to its responsibilities for risk management and recommend a risk management system for XYZ that would more effectively manage the risks of losing business continuity. **(10 Marks)**
 - (f) Evaluate the likely benefits for XYZ of an effective risk management system for business continuity. **(05 Marks)**
- (Total 20 Marks)**

Question No. 05 (20 Marks)

MKK is licensed to operate a high-speed rail network directly linking several cities in Malaysia. The government of Malaysia heavily subsidizes the rail network as it believes it to be critical infrastructure for the economic prosperity of the country. In return for the state finance, the government has set MKK challenging performance targets, the results of which it is required to publish monthly, as well as explaining any significant variances to the transport ministry.

The Board of Directors of MKK acknowledges that severe delays or cancellations, even if caused by problems outside the company's direct control, present it with a risk to its reputation with the travelling public, and loss of financial subsidies from the government which allow it to charge its customers attractive, low prices. Therefore, MKK proactively manages risk to ensure that customers receive the services they expect and demand by employing an enterprise risk management (ERM) framework. ERM aligns MKK's corporate objectives with its key performance indicators and targets, clearly implying that it takes the management of risk very seriously. Indeed, the culture of putting the customer's needs first is embedded into everything MKK does.

Recently, a weather-related train accident in an outlying area resulted in fatalities, casualties and major operational disruption on the MKK rail network. The actions taken by managers at all levels of MKK were highly commended, as it was recognized that their prompt and effective responses to this serious situation significantly reduced the number of deaths and injuries sustained. The coordination of emergency services meant that help was on the scene quickly.

You are required to:

- (a) Describe how risk awareness could be embedded in MKK's culture and values. **(05 Marks)**
 - (b) Discuss the types of risks which MKK is exposed to. **(10 Marks)**
 - (c) Assess how MKK uses risk management techniques to mitigate various types of business and financial risks which it faces. **(05 Marks)**
- (Total 20 Marks)**

End of Part II

End of Question Paper