



Institute of Certified Management Accountants of Sri Lanka
Business Strategy and Risk Management (BSR / SL 3) – Strategic Level
Pilot Paper - Suggested Answer Scheme

PART I

Question 01

Read the following case and answer the given questions at the end:

Dr. Sekeren inherited his father's Dey's Lab in Colombo in 2005. With the strong long term vision, he continuously works on the prosperity of the business. Till 2012, he owned 4 labs in the Colombo region. His ambition was to turn it into a national chain of medical laboratories. The number increased to 7 in 2013 across the country, including the acquisition of Medicare Lab in Anuradhapura. The number is likely to go to 50 within 5-10 years from 11 labs at present. As a result of investment of Rs. 20Mn for purchasing 26% stake of Pharma Capital has revealed what is Dey's growth strategy. This lab with revenue of Rs. 7.5 Mn is among top three Pathological labs in Sri Lanka. Yet its market share is only 2% of Rs. 350 Mn market. The top 3 firms command only 6% as against 40-45% by their counterparts in the region.

There are about 500 to 1000 stand-alone labs engaged in routine pathological business in Sri Lanka, however, with no system of mandatory licensing and registration. That is why Dr. Sekeren has not gone for acquisition or joint ventures unlimited. He does not find many existing laboratories meeting quality standards. His seven labs have been accredited nationally whereon many large hospitals have not thought of accreditation; The College of American pathologist's accreditation of Dey's lab would help it to reach clients even outside Sri Lanka.

In Dey's Lab, the bio-chemistry and blood testing equipment are sanitized every day. The bar coding and automated registration of patients do not allow any identity mix-ups. Even routine tests are conducted with highly sophisticated systems. Technical expertise enables them to carry out 1000 variety of tests. Same day reports are available for samples reaching by 3 p.m. and by 7 a.m. next day for samples from 100 collection centers located across the country. Their technicians work round the clock, unlike competitors. Home services for collection and reporting is also under the concern at present.

There is a huge underutilized capacity of Dey's Lab. Now it is trying to top other segments. 20% of its total business comes through its main laboratory which acts as a reference lab for many leading hospitals. New mega labs are being built to conduct preclinical and multi-center clinical trials within Sri Lanka and provide training to the pathologists.

i. Write down suitable vision and mission statements for Dey's Lab and justify the validity of those statements.

Students need to write appropriate vision and mission statements considering the following guidelines. Both should be short, attractive to inspire all, and easy keep in mind;

Vision: long term direction of the organization. It should be broad enough to cover all the future business, no need to be a precise destination.

Mission: is unique identity of the organization explaining fundamental reason for existence. It should explain the primary purpose, scope of the business (in terms of products and markets) and one or two most important value(s).

(10 marks)

ii. Explain different corporate level strategies adopted by Dey's Lab and suggest possible growth strategies for Dey's Lab.

Students need to explain following growth strategies applied by Dey's Lab;

1. Expansion of the laboratory network
2. Acquiring established laboratories (Medicare Lab)
3. Merging with other laboratories (Pharma Capital)

Possible growth strategies should be explained as in the following examples

1. Diversifying the business (related diversification; such as medical centers, private hospitals and unrelated diversification; transport service, farming etc.)
 2. Entering into joint ventures and strategic alliances with other large competitors
- Etc.

(10 marks)

iii. Explain Different types of risks associated with Dey's Lab.

Students need to explain the possible risks associated with Dey's Lab as following examples.

Strategic Risks: Risk of failing newly started labs in different areas of the country, Risk of failing the acquisition decision due to wrong assessment and unfavorable condition, Risk of failures in investment in Pharma Capital, Risk of emerging new comers with more capital and experiences, Risk of increase in competition by existing rivals, etc.

Operational Risks: Risk involved with recruiting required skilled personnel, Risk involved with the quality failures due to problems associated with testing equipment and human errors, etc.

Change or Project risk: Risk associated with new work time changes, new sophisticated technology, etc.

Unforeseeable risk: risks that cannot be forecasted accurately before it occurs. Such as new laws that will be imposed by the government and technological changes, etc.

(10 marks)

iv. What is the unique strategy of Dey's Lab to ensure competitive advantages? Explain the advantages and disadvantages of this strategy.

There are three main competitive strategies as cost leadership, product differentiation and focusing. However many organizations are trying to combine those traditional business so that they can produce quality products at a low cost.

This Dey's Lab is trying to differentiate their products to offer a range of products to address different customer needs and utilize their maximum capacity. Further it seems that they try to conduct tests in mass scale so that unit cost can be reduced.

(05 marks)

v. Write down five SMART objectives for Dey's Lab to be included in its strategic plan.

Need to write five specific, measurable, attainable, related and time bound strategic objectives as following examples;

1. To increase number of labs to 50 by 2025
2. To increase the revenue to Rs.20 Mn by 2020
3. To double the market share by 2018

(05 marks)

(Total 40 Marks)

PART I

Question 2

The complexity of the role of a Strategic Manager has been increased in the business world today and it is quite different than it was just few years ago. Thousands of businesses have collapsed due to lack of strategic orientation and inability to cope up with intense competition. Consumers have become extremely price sensitive but expect more quality value added products at the same time. It is obvious that becoming a strategic manager in the modern business environment is harder than ever because gaining and sustaining competitive advantage is not an easy job for a strategic manager of a modern business.

i. What do you mean by ‘Strategy’ and ‘Strategic Management’?

‘Strategy’ has different meanings in different contexts. It defines broadly in the field of strategic management: ‘Strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholders’ expectations.

Strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives gaining sustainable competitive advantages.

(05 marks)

ii. Compare and contrast SWOT analysis and Strategic Audit.

SWOT analysis is used to understand and map the results of internal and external environment of an organization under four categories Strengths, Weaknesses, Opportunities, and Threats. It needs to be applied different internal and external environment analytical methods or tools such as strategic audit, value chain analysis, competitive analysis PEST analysis etc. to bring the result of SWOT.

Strategic Audit is one of the tools used to analyze and assess internal environment of an organization over its main functions such as operations, marketing, finance, R&D and innovation, human resources management, finance and administration. The result of the strategic audit can be used to map SWOT matrix and develop strategies accordingly.

(05 marks)

iii. Understanding and analysis of competitors is a milestone in the development of viable strategies for any organization in present day context.

Select an organization that you are familiar with or where you are working and discuss with examples the tools that can be applied to understand the competitiveness of this industry.

The most popular tool used to analyze the competitive environment is, Michel Porter’s Five Forces Model. Students can discuss the application of the five forces model to explain the 1. Competition from existing rival groups, 2. Bargaining power of customers, 3. Bargaining power of suppliers, 4. Threats from new comers, and 5. Threats from substitutes of the selected business/industry. However, this model has extended and it covers all other stakeholders too at present concerning the different and conflicting expectations of the stakeholders.

In addition to this five forces model, other approaches such as market share (or relative market share) analysis, Value-chain comparisons, strategic group analysis, and strategic

position analysis (such as BCG matrix, GE matrix) are also applicable to understand the competitive position of an organization.

(10 marks)

(Total 20Marks)

Question 03

- i. **What do you mean by strategic thinking? Discuss the foresighted future for next 5-10 years of a selected industry highlighting the future challenges and future strategic moves.**

Strategic thinking involves thinking and acting within a certain set of assumptions and potential action alternatives as well as challenging existing assumptions and action alternatives, potentially leading to new and more appropriate ones. It generates the creative act of synthesizing experiences into a novel strategy (Synthesis of the insight to transform the company).It involves intuition and creativity.

Students require selecting an industry such as banking, mobile phone, computing, education, transport, etc. it should be highlighted the problems faced by the industry in the coming future. Then it needs to imagine the unseen future moves of that industry with students' creative and innovative abilities. Example: automobiles with features such as self-energy producing, intelligent and self-driving, small in sizes to personalize but ability to assemble with public transport.

(10 marks)

- ii. "Strategy implementation is a crucial decision and difficult part of the process and this can affect overall corporate performance, survival and growth. Hence, strategic managers should ensure that they select the best strategic options and prepare for the proper implementation by eliminating all kind of errors".

Discuss the stressed areas to be addressed by a strategic manager for successful implementation of the strategies developed.

This is the most important and crucial part of the strategy process. It requires transforming strategies into actions to take the expected results of the strategies developed. However, implementation is not easy as it requires matching with people, resources and contexts in order to implement the strategies successfully. Hence, managing this strategic change requires aligning the **structure, culture, and leadership** with the new strategy and requires **resource mobilization** accordingly.

It needs to discuss the;

Strategy- structure relationship,

Strategy- culture relationship,

Leadership role as managing strategic change,
Resource allocation and mobilization,
for the successful strategy implementation.

(10 marks)

(Total 20 Marks)

Question 04

- i. Ms. Senudra is a newly appointed CEO in a growing business organization. At a Board Meeting held recently with all other managers she pointed that “currently there is no proper mechanism to monitor, review and control the implemented strategies. Further mentioned, it also becomes most prominent part for setting future strategies for the organization.

Based on your gained knowledge and experiences critically analyze the statement made by Ms. Senudra emphasizing the process and techniques for strategic review and control.

This is the predecessor of the implementation of the strategy. It emphasizes the need of reviewing the performance change or after the implementation of strategy and matching it with predetermined expectations. The deviations or the gap should be addressed through controlling that means adjusting and changing according to correct deviations. Periodic reviews, audits and key performance indicators (KPIs) help to measure and compare actual performance with planned performance.

There are quantitative and qualitative tools and techniques applicable for this purpose.

Ratio Analysis, Variance analysis, Balance Score Card, Contingency planning, Strategic Audit, Ranking and indexes are some of the tools need to be explained in this answer. Consequences of the absence of the reviewing and controlling mechanism are also to be stressed.

(10 marks)

- ii. The purpose of any organization will be influenced by the expectations of its stakeholders. However, in strategy formulation it concerns the legitimate stakeholders of an organization and their expectations.

As a strategist in a large scale business organization in Sri Lanka, explain this scenario with appropriate examples.

Stake holders are all internal and external individuals and groups who are interested in the organization. They are influenced by the organizational activities and hence they make a stress on the organization. Their expectations are different and sometimes, conflicting. Hence, it needs balancing the different stakeholder groups concerning their importance and power. Most influential and important stake holders will be prioritize in strategy making process as it makes difficulties in addressing all stake holders. Hence, many

organizations mostly concern owners, employees, customers and government as there are legal obligations for these parties. However, it is not easy ignoring other stakeholders in strategy making process in modern businesses as they make a big impact on the implementation of the strategies.

It is expected explaining the stake holders' expectations, mapping stakeholders, and balancing their expectations in the strategic management process for a completed answer. Suitable examples should be provided.

(10 marks)

(Total 20 Marks)

Question 05

Risk management has come a long way from its origins in engineering and health and safety. It is now used on a wide range of applications across a range of commercial, industrial and other forms of enterprise. More and more organizations are establishing and developing risk management facilities, both as internal initiatives and in response to statutory and regulatory external pressures.

- i. Explain briefly basic types of risks in terms of the risk level within the organization.

Organizations face a range of risk types. The overall risk profile can contain a complex and dynamic range of risk types, which are interrelated and which vary as a function of time. In addition, there are overlaps between some of the risk types. However, there are four basic types of risks in terms of the risk level within the organization.

- strategic risk;
- operational risk;
- change or project risk;
- Unforeseeable risk.

Strategic risk relates to risk at the corporate level and affects the development and implementation of an organization's strategy.

Operational risk relates to the production process.

Change or Project risk operates at the program or project levels. Change risk operates at the strategic, operational and project levels. Changes can be imposed by variations elsewhere either within or outside the organization, or can be planned and engineered by the organization as a way to achieve objectives.

Unforeseeable risk also operates at the strategic, operational and project levels. Unforeseeable risk is the type of risk that cannot be accurately forecast before it occurs. It is generally allowed for by flexibility within the system with additional contingencies.

(06 marks)

ii. Explain the steps involved in the strategic risk management.

This process involves asking and answering the following key questions for an effective strategic risk management approach in an organization.

- “What are management’s processes for identifying, assessing, and managing top risk exposures?”
- “How does management’s process for managing risks consider whether risks being taken in the pursuit of objectives are effectively monitored to assure that they are within acceptable levels?”
- “What processes does management have in place to identify emerging risks affecting objectives and the related changes in risk prioritization in a rapidly changing environment?”
- “How is management monitoring key risks related to core strategic objectives?”
- **Following are the steps applicable in simple:**
 1. Identify and Assess Internal and External Risk
 2. Determine Appropriate Risk Response
 3. Establish Policies and Procedures, Controls, Systems and Accountability to Support Response
 4. Communicate Risks and Mitigation Plans
 5. Monitor Effectiveness of Mitigation Efforts

(06 marks)

iii. **Discuss how the firms can build capabilities to take calculated risks.**

Corporate governance: Interests of decision makers must be aligned with those of the owners. Both managers with very little wealth and too much wealth tied up in their business will not take any risk. So decision makers must have investment in the equity of the firm but also must be diversified. The venture capital and private equity investors who provide equity to start up come closest in this regard. They invest significant amounts in high growth high risk businesses but they spread their bets across multiple investments, thus generating diversification benefits.

People: When facing a crisis, some people panic, others freeze but a few thrive and become better decision makers. Firms must hire people who keep calm and quiet in crises. Ultimately risk management depends on the quality of people in the organization.

Reward / Punishment Mechanisms: A good compensation system must consider both process and results. A trader who maintains an inventory of risks taken and the rationale for taking these must be treated more favorably than one with chaotic trading practices and little or no explanations for trading strategies used, even if the latter is more successful.

Organization size/structure/culture: Optimally, we must encourage the risk taking behaviour of small firms with the defensive capabilities of larger ones. Flatter organizations tend to be better than more hierarchical organizations in handling information and responding quickly. Where risk must be dealt with on a continuous basis, different functions must not work in silos. Culture is also important. A key factor is the way a firm deals with failure rather than success. Tolerance towards failure is important, to encourage risk taking.

(08 marks)

(Total 20 Marks)

End of Answer Scheme