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Serial No.....

Institute of Certified Management Accountants of Sri Lanka
Strategic Level
November 2012 Examination

Examination Date : 18th November 2012 **Number of Pages :** 05
Examination Time: 9.30 a.m. – 12.30 p.m. **Number of Questions:** 06

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)

Read the following case on ‘Wal-Mart’ and answer the questions given at the end of it.

Wal-Mart is the one of the most extraordinary success stories in business history. Started in 1962 by Sam Walton, Wal-Mart has grown to become the world’s largest corporation. In the financial year ending January 31, 2010, the discount retailer, whose mantra is “everyday low prices,” had sales of nearly \$500 billion, 7600 stores in fifteen countries and 1.9 million employees. Some 8% of all retail sales in the United States are made at a Wal-Mart store. Wal-Mart is not only large; it is also very profitable. In 2009, the company earned a return on invested capital of 14.1%, doing better than its well-managed rivals Costco and Target, which earned 11.9% and 12.6% respectively. Wal-Mart has been consistently more profitable than its rivals for years, although of late its rivals have been closing the gap. Wal-Mart’s persistently superior profitability reflects a competitive advantage that is based upon a number of strategies. Back in 1962, Wal-Mart was one of the main companies to apply the self –service supermarket business model developed by grocery chains to general merchandise (two of its rivals, Kmart and Target, were established in the same year). Unlike its rivals, which focused on urban and suburban locations, Sam Walton’s Wal-Mart concentrated on small southern towns. Wal-Mart grew quickly by pricing lower than local mom-and-pop retailers, often putting them out of business. By the time Kmart and Target realized that small towns could support a large discount general merchandise store. Wal-Mart had already pre-empted them. These towns, which were large enough to support one discount retailer, but not two, provided a secure profit base for Wal-Mart. The company was also an innovator in information systems, logistics, and human resource practices. Taken together, these strategies resulted in higher productivity and lower costs, which enabled the company to earn a high profit while charging low prices. Wal-Mart led the way among American retailers in developing and implementing sophisticated product tracking systems using bar-code technology and checkout scanners. This information technology enabled Wal-Mart to track what was selling and adjust its inventory accordingly, so that the products found in a store

matched local demand. By avoiding overstocking, Wal-Mart did not have to hold periodic sales to shift unsold inventory. Over time, Wal-Mart linked this information system to a nationwide network of distribution centers, where inventory was stored and then shipped to stores within a 400-mile radius on a daily basis. The combination of distribution centers and information centers enabled Wal-Mart to reduce the amount of inventory it held in stores, thereby devoting more of that valuable space to selling and reducing the amount of capital it had tied up in inventory. With regard to human resources, the tone was set by Sam Walton, who held a strong belief that employees should be respected and rewarded for helping to improve the profitability of the company. Underpinning this belief, Walton referred to employees as “associates.” He established a profit-sharing scheme for all employees and, after the company went public in 1970, a program that allowed employees to purchase Wal-Mart stock at a discount to its market value. Wal-Mart was rewarded for this approach by high employee productivity, which translated into lower operating costs and higher profitability. As Wal-Mart grew larger, the sheer size and purchasing power of the company enabled it to drive down the prices that it paid suppliers. Passing on those savings to customers in the form of lower prices enabled Wal-Mart to gain more market share and hence demand even lower prices. To take the sting out of the persistent demands for lower prices, Wal-Mart shared its sales information with suppliers on a daily basis, enabling them to gain efficiencies by configuring their own production schedules to sales at Wal-Mart.

Requirements:

- (a) What are the two broad sources of competitive advantage, as illustrated in Porter’s GENERIC STRATEGY FRAMEWORK? You are required to present the GENERIC STRATEGIES MODEL by means of a properly labelled diagram. **(05 Marks)**
- (b) Why does Porter regard the two Generic Strategies as mutually exclusive? What are the dangers of pursuing these two strategic simultaneously?
Can’t companies successfully implement a hybrid strategy? Apply this specifically to the Wal-Mart case. **(15 Marks)**
- (c) List five specific sources of competitive advantage of Wal-Mart that you can identify from the given case study. **(10 Marks)**
- (d) If you are doing a strategic analysis of Wal-Mart as per the facts mentioned in this case study, briefly explain what you can mention in regard to the “bargaining power of the Suppliers”, as an area that comes under Porter’s 5 forces model. **(05 Marks)**
- (e) Show how McKinsey’s 7-S model can be applied to the present case study keeping in mind that the 7-S model is a strategy implementation model. **(05 Marks)**

(Total 40 Marks)

End of Part I

Part II

Answer any **three (3)** questions

Question No. 02 (20 Marks)

- (a) To achieve long-term prosperity strategic planners generally establish long-term objectives that cover many areas, where profitability is a top priority in most businesses. List any **four** of these areas (other than profitability) and briefly discuss these. **(12 Marks)**
- (b) The real owners of a company (i.e. shareholders) elect Boards of Directors who hire managers as their agents to run the firm's day-to-day activities. Who are “**stakeholders**”? **(03 Marks)**
- (c) What is “unethical behavior” in relation to a business organization? Mention two possible reasons for such unethical behavior. **(05 Marks)**

(Total 20 Marks)

Question No. 03 (20 Marks)

Undertake an analysis of Sri Lanka's hotel industry on Porter's “5 – Force Framework” to assess the intensity of competition in that industry. You are required to limit your industry and is to 5-Star Hotels in Colombo city (such as Hilton, Cinnamon Grand, Galadari, Continental etc...), what would be the positioning and generic strategy adopted by any of these hotels with which you are familiar.

(Total 20 Marks)

Question No. 04 (20 Marks)

- (a) Effective implementation of Strategy to achieve competitive advantage and superior performance is as important as formulation of strategy. Often, many organizations suffer due to poor implementation efforts that do not result in effective translation of effective strategic thought in to action.

What are different types of activities that are necessary to executive and implement a strategic plan?
(14 Marks)

- (b) What are “policies” in organizations and what is the purpose served by policy?

Briefly state and discuss two **policies** you have come across in an organization with which you are familiar.

(06 Marks)

(Total 20 Marks)

Question No. 05 (20 Marks)

- (a) The decision making hierarchy of large contemporary business organizations contains many levels. Differentiate between “Corporate” and “Business” levels in a typical business organization that carries out several different types or lines of businesses.

What are the differences between the main responsibilities of the strategic managers occupying these two levels? **(08 Marks)**

- (b) What decisions facing a business are **strategic** and therefore deserve attention of the Top / Strategic management attention can be answered by examining the typical dimensions of strategic issues.

State any four such dimensions. **(08 Marks)**

- (c) List any four benefits that will accrue to an organization that practise the concepts of strategic management. **(04 Marks)**

(Total 20 Marks)

Question No. 06 (20 Marks)

- (a) Discuss the concept of “control” as a key management fraction and list the main steps in a typical control forces in an organization. **(05 Marks)**

- (b) Traditionally, accounting practice has focussed on the internal environment of the business, overlooking an origination is exposure to changes in the external environment. Explain this statement highlighting the shortcomings of this appraisal. **(05 Marks)**

- (c) Describe how Kaplan’s Balanced Scorecard (BSC) offers an improved technique for meaning company performance. Explain each of the four perspectives of the BSC and cite two relevant indications against each perspective. **(10 Marks)**

(Total 20 Marks)

End of Part II

Present value table

Present value of 1.00 unit of currency, that is $(1 + r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

| Periods (n) | Interest rates (r) | | | | | | | | | |
|-----------------|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% |
| 1 | 0.990 | 0.980 | 0.971 | 0.962 | 0.952 | 0.943 | 0.935 | 0.926 | 0.917 | 0.909 |
| 2 | 0.980 | 0.961 | 0.943 | 0.925 | 0.907 | 0.890 | 0.873 | 0.857 | 0.842 | 0.826 |
| 3 | 0.971 | 0.942 | 0.915 | 0.889 | 0.864 | 0.840 | 0.816 | 0.794 | 0.772 | 0.751 |
| 4 | 0.961 | 0.924 | 0.888 | 0.855 | 0.823 | 0.792 | 0.763 | 0.735 | 0.708 | 0.683 |
| 5 | 0.951 | 0.906 | 0.863 | 0.822 | 0.784 | 0.747 | 0.713 | 0.681 | 0.650 | 0.621 |
| 6 | 0.942 | 0.888 | 0.837 | 0.790 | 0.746 | 0.705 | 0.666 | 0.630 | 0.596 | 0.564 |
| 7 | 0.933 | 0.871 | 0.813 | 0.760 | 0.711 | 0.665 | 0.623 | 0.583 | 0.547 | 0.513 |
| 8 | 0.923 | 0.853 | 0.789 | 0.731 | 0.677 | 0.627 | 0.582 | 0.540 | 0.502 | 0.467 |
| 9 | 0.914 | 0.837 | 0.766 | 0.703 | 0.645 | 0.592 | 0.544 | 0.500 | 0.460 | 0.424 |
| 10 | 0.905 | 0.820 | 0.744 | 0.676 | 0.614 | 0.558 | 0.508 | 0.463 | 0.422 | 0.386 |
| 11 | 0.896 | 0.804 | 0.722 | 0.650 | 0.585 | 0.527 | 0.475 | 0.429 | 0.388 | 0.350 |
| 12 | 0.887 | 0.788 | 0.701 | 0.625 | 0.557 | 0.497 | 0.444 | 0.397 | 0.356 | 0.319 |
| 13 | 0.879 | 0.773 | 0.681 | 0.601 | 0.530 | 0.469 | 0.415 | 0.368 | 0.326 | 0.290 |
| 14 | 0.870 | 0.758 | 0.661 | 0.577 | 0.505 | 0.442 | 0.388 | 0.340 | 0.299 | 0.263 |
| 15 | 0.861 | 0.743 | 0.642 | 0.555 | 0.481 | 0.417 | 0.362 | 0.315 | 0.275 | 0.239 |
| 16 | 0.853 | 0.728 | 0.623 | 0.534 | 0.458 | 0.394 | 0.339 | 0.292 | 0.252 | 0.218 |
| 17 | 0.844 | 0.714 | 0.605 | 0.513 | 0.436 | 0.371 | 0.317 | 0.270 | 0.231 | 0.198 |
| 18 | 0.836 | 0.700 | 0.587 | 0.494 | 0.416 | 0.350 | 0.296 | 0.250 | 0.212 | 0.180 |
| 19 | 0.828 | 0.686 | 0.570 | 0.475 | 0.396 | 0.331 | 0.277 | 0.232 | 0.194 | 0.164 |
| 20 | 0.820 | 0.673 | 0.554 | 0.456 | 0.377 | 0.312 | 0.258 | 0.215 | 0.178 | 0.149 |

| Periods (n) | Interest rates (r) | | | | | | | | | |
|-----------------|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 11% | 12% | 13% | 14% | 15% | 16% | 17% | 18% | 19% | 20% |
| 1 | 0.901 | 0.893 | 0.885 | 0.877 | 0.870 | 0.862 | 0.855 | 0.847 | 0.840 | 0.833 |
| 2 | 0.812 | 0.797 | 0.783 | 0.769 | 0.756 | 0.743 | 0.731 | 0.718 | 0.706 | 0.694 |
| 3 | 0.731 | 0.712 | 0.693 | 0.675 | 0.658 | 0.641 | 0.624 | 0.609 | 0.593 | 0.579 |
| 4 | 0.659 | 0.636 | 0.613 | 0.592 | 0.572 | 0.552 | 0.534 | 0.516 | 0.499 | 0.482 |
| 5 | 0.593 | 0.567 | 0.543 | 0.519 | 0.497 | 0.476 | 0.456 | 0.437 | 0.419 | 0.402 |
| 6 | 0.535 | 0.507 | 0.480 | 0.456 | 0.432 | 0.410 | 0.390 | 0.370 | 0.352 | 0.335 |
| 7 | 0.482 | 0.452 | 0.425 | 0.400 | 0.376 | 0.354 | 0.333 | 0.314 | 0.296 | 0.279 |
| 8 | 0.434 | 0.404 | 0.376 | 0.351 | 0.327 | 0.305 | 0.285 | 0.266 | 0.249 | 0.233 |
| 9 | 0.391 | 0.361 | 0.333 | 0.308 | 0.284 | 0.263 | 0.243 | 0.225 | 0.209 | 0.194 |
| 10 | 0.352 | 0.322 | 0.295 | 0.270 | 0.247 | 0.227 | 0.208 | 0.191 | 0.176 | 0.162 |
| 11 | 0.317 | 0.287 | 0.261 | 0.237 | 0.215 | 0.195 | 0.178 | 0.162 | 0.148 | 0.135 |
| 12 | 0.286 | 0.257 | 0.231 | 0.208 | 0.187 | 0.168 | 0.152 | 0.137 | 0.124 | 0.112 |
| 13 | 0.258 | 0.229 | 0.204 | 0.182 | 0.163 | 0.145 | 0.130 | 0.116 | 0.104 | 0.093 |
| 14 | 0.232 | 0.205 | 0.181 | 0.160 | 0.141 | 0.125 | 0.111 | 0.099 | 0.088 | 0.078 |
| 15 | 0.209 | 0.183 | 0.160 | 0.140 | 0.123 | 0.108 | 0.095 | 0.084 | 0.079 | 0.065 |
| 16 | 0.188 | 0.163 | 0.141 | 0.123 | 0.107 | 0.093 | 0.081 | 0.071 | 0.062 | 0.054 |
| 17 | 0.170 | 0.146 | 0.125 | 0.108 | 0.093 | 0.080 | 0.069 | 0.060 | 0.052 | 0.045 |
| 18 | 0.153 | 0.130 | 0.111 | 0.095 | 0.081 | 0.069 | 0.059 | 0.051 | 0.044 | 0.038 |
| 19 | 0.138 | 0.116 | 0.098 | 0.083 | 0.070 | 0.060 | 0.051 | 0.043 | 0.037 | 0.031 |
| 20 | 0.124 | 0.104 | 0.087 | 0.073 | 0.061 | 0.051 | 0.043 | 0.037 | 0.031 | 0.026 |

End of Question Paper