



Institute of Certified Management Accountants of Sri Lanka
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May 2023 Examination

Strategic Level **BSR – 403 Business Strategy & Risk Management**

No. of Pages: 08
No. of Questions: 06

Instructions to Candidates:

1. Time Allowed : Reading- **15 minutes.**
Writing - **Three (3) hours.**
2. Total : **100** Marks.
3. This paper consists of three Parts.
Part-1: Question no. 01 (**Compulsory**).
Part-II: Question no. 02 – 04 (**Select any 02 questions**).
Part-III: Question no. 05 – 06 (**Answer both questions**)
4. Answer only five (05) questions **including** Question No. 01.
5. The answers should be in **English** language.
6. Begin each answer on a separate page in the answer booklet.

PART – I
Compulsory

QUESTION NO.01

S D M Wellness Centers Ltd (SWCL)

Sandra De Mel is the eldest daughter of a wealthy businessman and after returning from her graduation in Sweden as a beauty culture specialist, incorporated her own business - S D M Wellness Centers Ltd (SWCL). Branded as 'Timeless Wellness' some key aspects of Sandra's business concept are summarized below:

- There is a sizably super-rich segment with high disposable income, in all regions and their principal townships across the country
- To have a chain of wellness centers in all principal towns in the country, that will offer an opportunity for the ladies of these affluent segments to enjoy the comforts of modern salon facilities, coupled with anti-aging treatments
- These service offerings will be in the form of two divisions managed and supervised by known experts in the respective fields as Sandra is keen to maintain consistent quality standards.
- The upmarket pricing that will be in line with and support the business's differentiation strategy in terms of quality and professionalism, and other attributes of the products and services being offered.

Even though Sandra's father is a leading businessman he has advised that the venture should be professionally managed and amongst other things, with ensured financial discipline. Accordingly, she has sought advice from one of her colleagues in a top management consulting firm who has agreed to provide Sandra with limited guidance in formulating a strategy and preparation of financial forecasts. She has firmly advised Sandra that "*formulation is 20% and implementation and control is 80%*", a popular quote, that emphasizes the importance of these two components in strategically managing an enterprise. Sandra has also been cautioned that the setting up costs such as advance payments to obtain rental space in key locations in selected towns are high, and hence to optimize operational costs to keep the center break-even points at manageable levels. Sandra and her consulting friend have decided that each city center will be managed by a Center Manager (a female) who is not with either beauty culture or anti-aging treatment experiences but with a good academic and management exposure from the local areas concerned after giving some overall training about the nature of the two different types of businesses conducted at the centers.

Sandra who will function as the CEO and has identified Kema and Leema to head the **Salon sector** and **Anti-aging'** sector, as the respective Operational Divisional Heads (ODHs) Each center manager will have to report to Kema for Salon's operational activities and to Leema for Anti-aging activities. There will also be a Finance Manager and an HR manager to whom the center managers will have to report Finance and HR activities respectively.

Before the preparation of any financial forecasts, Sandra has been advised to prepare key areas of implementation and control mechanisms to manage this venture.

You have been selected by Sandra's friend to finalize these, by closely working with the two-sector divisional heads.

YOU ARE REQUIRED TO:

1.1. Recommend and briefly **explain** key requirements of a suitable organizational structure that will support SWCL's strategy. In addition, support and illustrate the answer with a rough sketch of an organization chart.

(12 Marks)

1.2. During your discussions with the two divisional managers, it was decided that they should commence preparing the operating procedure manual that each center manager needs to follow. At this point, they have requested you to **explain** the difference between what are meant by policies and procedures illustrating these terms with a possible example of application, under each of these, at SWCL.

(10 Marks)

1.3. Explain three types of controls specified under the category of Implementation Controls, to Strategically Control SWCL. Illustrate your answer with an example under each of these types of implementation controls.

(18 Marks)

[Total 40 Marks]

Part - II

Answer any two (02) questions.

QUESTION NO.02

Design Housing Ltd (DHL) is a property development company engaged in designing, constructing, and marketing medium- scale houses and you have been recently appointed as the financial controller. One of the primary, initial responsibilities assigned to you is to provide leadership and to guide an internally appointed multi-disciplinary management committee formed to develop a draft strategic plan for the review of the board of directors of DHL.

YOU ARE REQUIRED TO:

2.1. Discuss how key economic variables, that influence the company's strategy and performance can impact DHL. (Required to identify minimum three key economic variables)

(12 Marks)

2.2. Explain the recent developments in our economic environment in relation to each of these variables.

(03 Marks)

[Total 15 Marks]

QUESTION NO.03

Reliable Finance Company (RFC) is a medium -sized finance company operating in Sri Lanka's non-banking financial institutions (NBFI) sector and is currently experiencing a lack of growth due to recent restrictions on vehicle imports. Before these governmental restrictions, most finance companies relied heavily on vehicle leasing and resultant interest as a principal source of such companies' revenue.

i) At a recent senior management review meeting, the MD of RFC addressed the senior executives requesting them to engage in blue ocean based strategic thinking and forward some proposals to be considered by the board of directors.

YOU ARE REQUIRED TO:

3.1. Explain the concept of Blue Ocean Strategy when getting engaged in strategic thinking for the purpose of strategic choice, in formulating strategies in an organization with particular reference to RFC.

(09 Marks)

- ii) To overcome the problem of slow growth RFC is considering obtaining an insurance agency that can act as an agent for a leading principal insurer (e.g. Janashakthi Insurance Plc), across wide ranging product categories such as real estate insurance, life insurance etc.

YOU ARE REQUIRED TO:

- 3.2.** Briefly **explain** two factors that determine the intensity of competition in this new proposed line of business.

(06 Marks)

[Total 15 Marks]

QUESTION NO.04

Door to Door Deliveries Ltd (DDL) is a new company started by two graduates, Jackson and Joseph; Jackson with an engineering background in transportation- related operations, and the other Joseph with a marketing qualification, both with experience in their respective professions. They have been advised by many to consider the formulation of a business plan as an important step toward developing a viable, profitable business organization.

“After all business is common sense, if one can formulate operational solutions to satisfy some unfulfilled customer needs and such can be marketed effectively” mentioned Jackson who advocated not to hire expert consulting advice in formulating the business plan for their venture. However, in the process of formulating this plan, Jackson and Joseph came across certain terms and their underlying concepts as mentioned. Since they could not really figure out their intended meaning, a mutual friend Malith, a qualified accountant was consulted.

YOU AS MALITH, IS REQUIRED TO:

- 4.1.** **Explain** the term ‘Values’ often cited in many business plans by illustrating the same with an example of a possible application in relation to DDL.

(06 Marks)

- 4.2.** **Explain** and illustrate the difference between effectiveness, efficiency, and economy in the context of operations of DDL.

(09 Marks)

[Total 15 Marks]

PART - III
Answer both questions.

QUESTION NO. 05

BSR Ltd is a company that functions as a Wholesaler for large-scale importers of ceiling and pedestal fans, electrical switches, energy-saving bulbs and a range of other electrical products. Operating in a price-conscious market, the gross margins (selling price - cost of import) the Company earns are at a low level.

The Company's debt-equity ratio is at a high level, which has also contributed to the Company currently operating at a high break-even point. Shareholders have introduced most of their personal resources to accommodate the growth of the Company. Nevertheless, BSR made a net profit for the year ended 31st March 2022. The Company has strong control systems assisted by updated IT/IS systems and the Company's Finance Division assists the CEO, a professional marketer, in carefully planning and controlling the operations.

The Key Success Factors (KSFs) of the industry that BSR operates include holding adequate inventories to distribute to the Retailers and the ability to offer a credit period to such retailers. During the last board meeting, the directors expressed concern over the recent developments in the economic climate of the country, especially in the early part of the year 2022.

YOU ARE REQUIRED TO:

5.1. Distinguish between strategic risk and operating risk in a company such as BSR Ltd.
(06 Marks)

5.2. In your capacity as the Financial Controller of BSR Ltd, from the discussion in the above given scenario, and **explain** the facts that could impact and give rise to strategic risks at BSR.

(09 Marks)

[Total 15 Marks]

QUESTION NO. 06

PART-A

Fair and Ethical Pharma (FEP) is a well-respected pharmaceutical company owned and managed by Dulan Senadeera, a qualified chemist with pharmaceutical product manufacturing experience. He is currently negotiating with a reputed overseas pharmaceutical manufacturer to commence a joint venture with FEP. Dulan, at a recent board meeting, invited the attention of other directors and the CFO – Kemathi, a qualified accountant, regarding an email from his prospective joint venture partner that read as follows:

“As a foreign investor, we would like to get an independent expert opinion about the political risk in your country.”

Dulan turned towards Kemathi and commented as:

“As you know very well, FEP has no political bias whatsoever for whichever political party or parties, and therefore, I cannot understand the logic behind this requirement.”

YOU ARE REQUIRED TO:

6.1. Assuming you are Ms Kemathi, **explain** what is meant by political risk from the point of view of the foreign investor.

(07 Marks)

PART-B

Excellent Quality Equipment (EQE) is a company that imports and markets high-end construction and manufacturing equipment that are usually purchased by reputed organizations. Due to the current economic condition, some customers of the Company now inquiring about low-cost equipment. To counter this problem EQE’s marketing team has identified some alternative foreign firms from India from whom they can import cheaper versions of the existing range of equipment at acceptable quality standards though not up to the level of the Company’s existing suppliers. The profitability of this proposal is attractive taking into account all relevant variables.

The Marketing Director has cautioned the Board of Directors of the Company that in time to come, there is a high possibility that even well-known manufacturing firms may consider aggressive cost reductions in several directions. Accordingly, the marketing team has forwarded their project feasibility report to market this new product range.

Presently dealing with reputed firms, the company's bad debts/write-off percentage is less than 1% of turnover. The Chairman of the Board feels that not only entering this market segment is risky from a credit management perspective, but also could lead to the erosion of EQE's brand name, and hence has declined the strategic proposal by the Marketing Director, while some other members of the Board to support this product/market development.

YOU ARE REQUIRED TO:

6.2. Assuming you are the Strategy Consultant at EQE, **advise** the Board with your **recommendations** to address this issue.

(08 Marks)

[Total 15 Marks]

-End of the Question Paper-