



Institute of Certified Management Accountants of Sri Lanka
Incorporated by Parliament Act No.23 of 2009

May 2022 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

Fascinating Global Tours Ltd (FGT), a renowned large company in the leisure sector was set up thirty years ago by Neelan to provide package holidays in Sri Lanka to British tourists. Since then, the company has enjoyed steady growth with subsequent expansion into other international markets and also arranging overseas tours to Sri Lankan holiday makers with a range of holiday deals. Holiday makers have been attracted by FGT's good quality, fair prices, and friendly tour guides. Neelan a passionate and a hands-on entrepreneur with an operational background in the related fields, leads the management team hands-on in his capacity as the CEO/MD and the balance board members are his brother-Lucas and son David. As a closely knitted family all members share discussions and key decisions.

The following members of the top management team report to the board of directors directly

Mr. J – Marketing manager (including all 'promotions').

Ms. K – Head of Airlines coordinating.

Ms. L – Head of Hotel coordinating.

Ms. M - Head of Bookings coordinating and Customer liaison.

Ms. N - Head of Resort Customer Service coordinating.

Mr. P - Chief Accountant (including 'Pricing').

All these top managers run their respective departments that manage the functions as shown above and manage the business processes from the beginning to the end. As a large organization each such department directly employs several staff members. The company has entered business alliances with several local hotels as well as hotels in each major tourist destination in different countries and such hotels are referred to as 'resorts'. Each such destination has a dedicated customer service representative who looks after the wellbeing of FGT customers and all of them report to a resort customer service coordinator. Currently FGT does not undertake holidays to religious destinations.

As a private, family-owned company FGT always confront capital limitations, especially for growth.

Product profile of FGT.

Type of holiday	Market Growth	Market Share	Market Share Of the largest competitor	Share of FGT's revenue
-Sri Lankan Holidays (Local and foreign customers)	12%	5%	17%	30%
Holidays for Sri Lankans (Luxury overseas tours)	4%	22%	25%	20%
-Holidays for Sri Lankans (Economy overseas tours)	5%	20%	15%	50%

*Note – There is a high level of competition by several tour operators in Sri Lanka, canvassing for prospective foreign holiday makers looking to visit our country.

More recently several problems have come to light ranging from cashflow, top management fatigue and even customer dissatisfaction.

Assuming you are the management consultant of FGT and as per details available in the above scenario

You are required to:

1.1. Recommend and justify an appropriate method to be considered, when allocating funds available in the company for future growth purposes, among different types of holiday markets.

(12 Marks)

1.2. Critically comment on the 'organizing' function of FGT and particularly as to the type of the 'organizational structure' currently practiced and **advise** any recommendations if considered necessary.

(18 Marks)

1.3. A friend of Neelan has proposed that FGT should expand their operations to include tours for international religious destinations for Sri Lankans and has sought your advice accordingly. Briefly **explain** the types of 'feasibility' needed that will facilitate in arriving at a decision.

(10 Marks)**[Total 40 Marks]**

Part - II

Answer any two (02) questions.

QUESTION NO.02

You are presently the project leader of a management consulting firm and oversees the consultations to assist company X and company Y in finalizing their future strategy and to actions to improve strategic competitiveness.

Company X is a new property development company engaged in constructing and marketing semi-luxury residential apartments for high income groups in major cities.

Company Y is an organization undertaking repairs for luxury automobiles including accident repairs.

You are required to:

2.1. Briefly **describe** three relevant variables falling within the classification 'economic forces', that each of these companies will have to deal with, when carrying out a macro environmental analysis.

(03 Marks)

2.2. **Justify** and **compare** how each these variables as you have identified under 2.1.) above, can impact Company X and Company Y under the present macro environmental circumstances confronting Sri Lanka.

(12 Marks)

[Total 15 Marks]

QUESTION NO.03

Trustworthy Fresh Produce Ltd (TFP) is a large company engaged in the cultivation of a range of fruits and vegetables and is well known for adopting quality conscious agriculture production processes. There are separate properties of TFP engaged in organic cultivations. The company is owned by a group of friends who are the shareholders/directors, and they have their own separate individual business interests, apart from TFP. The company is managed by a team of top management including an experienced graduate in agriculture from the University of Peradeniya acting as the company's CEO. Products of the company are marketed by an island wide network of distributors who are supposed to conform to a set of rigid quality guidelines in distribution. Due to increased presence of tax incentives, there are several organizations that compete in this sector.

Currently the management of TFP is in the process of preparing a 'strategic plan' mainly at the request of the company Accountant, intended for the purpose of obtaining additional financial facilities from the financial institutions presently granting financial support to TFP.

You are required to:

3.1. Analyze the incidence of a possible existence of the 'agency problem', by providing two examples of practical application at TFP.

(05 Marks)

3.2. Contrast the difference between 'strategic planning' and 'strategic thinking'. Support your answer with an illustration in relation to TFP.

(08 Marks)

3.3. Assess a key weakness in strategically managing TFP, as discussed in the above scenario.

(02 Marks)

[Total 15 Marks]

QUESTION NO.04

Super quality Distributors Ltd (SDL) a recently incorporated company import and distribute high quality electronic circuit breakers (commonly referred to as 'trip switches') island wide, along with some related products as the company's product range. The company is owned by an electrical engineer who was able to secure agency rights in the country from the manufacturer based in France. The other products are also from reputed foreign principals, though as not as popular as the main product- the circuit breaker. All products marketed by SDL are from reputed foreign principals and will have to meet and honor the annual and long-term import targets from these parties.

SDL products are marketed and distributed by carefully selected groups of marketing representatives for different geographic regions with adequate training on product knowledge given by the company.

You are required to:

4.1. Explain with examples, the different forms of 'implementation controls', a principal category of strategic controls that SDL can practice.

[Total 15 Marks]

PART - III
Answer both questions.

QUESTION NO. 05

Excellent Pharma is a pharmaceutical company with agencies from few reputed foreign drug manufacturers and operate in the fitness and anti-aging sectors of the pharmaceutical industry. An interesting situation has arisen where one of their principals* from Sweden has come up with a breakthrough by way of a non-prescriptive vitamin that will help extending life span of individuals over 70 years by at least 10 more years. This vitamin is extremely expensive and must be taken daily for a month uninterrupted. The principal in Sweden is a recognized vitamin producer and their proposal is that the offer has been made to all their worldwide agents and to be entitled to obtain the right to market this product, there will be a special lumpsum payment that will have to be incurred by each country agent. The agents have the prospect of making huge profits if the vitamin can be marketed in their respective territories. The lumpsum payable by each country agent will depend on factors like the per capita income, size of the market, etc. Excellent Pharma has a capital structure consisting of only equity amounting to Rs.50 million. As this is a very revolutionary medical invention, there is also a sizeable probability of it not being accepted in the Sri Lankan market while there is a higher likelihood the vitamin will be successful. Given the company's successful performance in the past, Excellent Pharma's bankers have agreed to finance the cost of this project.

The below financial and market information pertaining to the project have been compiled by the pharmaceutical marketing consultant of Excellent Pharma assisted by a financial consultant as well:

a) Project costs (all in Rs. 000's)

The initial lumpsum payable to the Swedish principal that is applicable to Sri Lanka	Rs. 40,000
Initial publicity and marketing expenses including product launch	Rs. 20,000

b) Likelihood (probabilities) in terms of the return (NPV) of the new project

Probability of success - (60%)	- NPV of the new project	Rs.100 Mn
Probability of failure - (40%)	- NPV of the new project	Rs.(70 Mn)

**Principals - (A usual supply chain for a country like Sri Lanka with low bases of manufacturing, we import several products from foreign manufacturers who appoint local organizations referred to as 'agents' to distribute their products. Such foreign manufacturers, in the commercial world are usually referred to as 'principals', from the point of view of the local organizations)*

You are required to:

5.1. Assume you are the accountant of Excellent Pharma:

Explain the meaning of the term 'risk appetite' and **advise** the directors of Excellent Pharma on this project.

[Total 15 Marks]

QUESTION NO. 06

Sumith, a qualified Accountant who also possesses several years of professional experience has been recently appointed as the financial controller (FC) of 'Supreme Distributors Company' (SDC), which is a large-scale import and marketing organization. The company distribute its products through an island-wide network of distributors and is equipped with a wide product range mostly consisting of consumer durables. Credit sales are an integral part of the company's turnover.

An independent director of the board of directors of SDC has suggested that the newly appointed FC of the company to review the 'internal controls' currently practiced by the company as an integral component of the company's overall risk management framework and then to submit a report to highlight any critical weaknesses, should there be any.

You are required to:

6.1. Explain any five types of controls that you will critically examine in trying to understand and evaluate the soundness or otherwise of the company's system of internal controls.

(10 Marks)

6.2. Illustrate you answer by quoting a possible weakness that could be addressed by each of the suggested type of internal control.

(05 Marks)

[Total 15 Marks]

-End of the Question Paper-