

CA



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

SUGGESTED SOLUTIONS

14304 – Strategic Management Process

CA Professional (Strategic Level I) Examination
JUNE 2013

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Answer No. 01

(a) **SWOT Analysis**

Strengths

- Having a reputed and established brand being a pioneer in the mobile tele-com industry in Sri Lanka
- The market leader in the mobile tele-com industry in Sri Lanka
- Relatively easy to raise funds being a Quoted public company
- Specialised knowledge in the industry.(leading to innovations)

Weaknesses

- Issues in organization structure
- Demotivated employees
- Increasing trend in customer complaints due to poor customer service
- Decreasing trend in profitability due to lack of controls.

Opportunities

- Growing trend in use of mobile phone in rural areas (possibility of expanding market)
- There is a trend that People prefer using more than one connection from different mobile operators

-Any other acceptable point will be considered

Threats

- Internationally reputed telecommunication providers have already entered to the local market and plan to offer different products at very low cost (entrance of new competitors)
- Different substitute products due to technology advancement. E.g. Skype, Google hangout etc
- Govt. regulations – possibility of imposing new taxes.
- **Any other acceptable point will be considered**

(6 marks)

(b) **“bargaining power of the Customers**

Overall conclusion should be **”high”**

Reasons include (but are not limited to the following)

- Competition among existing rivals is very high and all industry players compete each other to capture the market and retain customers.
- Switching cost to customer is very low
- There are substitute products at relatively very low cost or free of charge;
 - E.g. Sype ,Google hangout etc.

- Regulator "TRC" closely monitors the prices of all tele-com services providers. Therefore, the chances for services providers (suppliers) to bargain very low. But it is an advantage to customers.
- Different advantage of industry products diversified products (low bargaining power)
- Force down price due to high competition.

(8 marks)

(c)

(i) The existing structure to be changed due to the following;

- De-motivated staff
- Duplication of roles/jobs /functions of departments
- Employee turnover (specially professional Staff) may be high as the existing structure does not support for them to climb the ladder in their career. This has been the major reason for the company's failure.
- Having a tall organisation structure of layered management hierarchies with lots of checks and controls that required people to look upward in the organisational structure for answers and approvals which may be failing to deliver responsive customer service and adoption to changing conditions.
- Tall hierarchy hampers effective communication.

(ii) **The suggestion:** need to design an organisational structure into a flatter/ liner one. This should be responsive to the change. Today, many companies specially considering for downgrading, are drawing on five tools of organisational design.

- I. Managers and workers are empowered to act on their own judgments
- II. Work process design (to achieve greater streamlining and tighter cohesion)
- III. Self-directed work teams
- IV. Rapid incorporation of Internet Technology applications
- V. Networking with outsiders to improve existing organizational capabilities and create new ones.

(6marks)

(d) **Main objectives of the restructuring strategy would include;**

1. To address the customer complaints
2. To eliminate complicated management structure of the expanded company
3. To obtain synergetic advantages from newly diversified businesses and existing businesses
4. Identifying profit centers of the company and let them manage independently by appointing heads to those profit centers. (Strategic Business Unit)
5. Identify non-value adding functions and processes in order to remove them
6. Reduce the number of divisions already established in the organization where duplication of work was taking place
7. To introduce new functions and processes with the help of existing people which were identified as necessary to face the surging competition
8. Strengthen the core functions of the company such as front line customer service and sales, network infrastructure development

9. To make communication easy fast and reliable in the light of the cost structure
(8 marks)

Answer No. 02

(a)

- Purpose driven – Every organization has a purpose and that purpose is specified in the vision. So all stakeholders are explicitly aware of why the organization exist.
- Futuristic: It looks to a future that is better than the status quo & not to the past.
- Inspiring It creates enthusiasm poses a challenge
- Motivation-. Vision motivates employees to work towards reaching it.
- Audacious (bold): It challenges employees to go beyond the present and to achieve what you can if you ‘stretch’ yourself to the utmost.

(4 marks)

- (b) When a firm has several key objectives, some might be achieved only at the expense of others. For example, a company’s objective of achieving high profits and profit growth might have adverse consequences for the cash flow of the business or the quality of the firm’s products.

(2 marks)

Steps to deal with conflicts

- Rational evaluation according to financial criteria
- Bargaining: Managers with different goals will compete and form alliances with other managers to achieve their goals.
- Satisficing: Firms do not aim to maximise performance in one area if this leads to poor performance elsewhere. Rather they will accept satisfactory, if not excellent, performance in a number of areas.
- Sequential: Goals are dealt with one by one in a sequence.
- Priority setting: Certain goals get priority over others. This is determined by senior managers.

(Total 8 marks)

(c) (i)

- The way in which products are made (e.g. use of new materials)
- The type of products or services that are made and sold
- The way in which services are provided e.g. books and CDs offer greater consumer choice and enjoy considerable success over the internet.
- The way in which markets are identified: database systems make it easier to analyse the market.
- The way in which firms are managed: IT encourages ‘delaying’ of organisations and results in better communication.

- The means and extent of communications with external clients; the financial sector is growing rapidly. Electronic call centres are now essential to stay in business.
- (ii) Recent technological change has important social consequences and has affected work practices.
- Home working: Whereas people were once collected together to work in factories, home working is also gaining ground.
 - Intellectual skills: Certain types of skills related to interpretation of data and information processes have become more valued than manual or physical skills.
 - Services: Technology increases manufacturing productivity, releasing personnel for service jobs. The latter requires greater interpersonal skills (e.g. to deal with customers).
- (8 marks)**
- (d) (i) Key Success Factors (or Critical Success Factors) are those product features that are particularly valued by a group of customers. The organisation must excel in these to outperform competition (Johnson, Scholes & Whittington) The threshold product features which would be expected from any supermarket are not categorized as KSF
- (ii) KSFs for a supermarket operation
- Site location and acquisition- A suitable location providing easy access, parking facilities for customers' vehicles & for vans delivering merchandise to the store
 - Store size according to customer base and range of items to be stocked
 - Customer profile – Customers' financial strength as customers need to spend on a wide range of items and buy whatever they want on a single trip.
 - Reliable IT infrastructure linking point of sale to logistics
 - Own financial strength for bulk purchase of merchandise & for making prompt payments to suppliers
 - Hours of business – because customers look for convenience
 - Availability of high quality products/service which is valued by some customers.

(10 marks)

(Total 30 marks)

Answer No. 03

(a)

(i) Advantages for a Firm that is a 'First Mover'

- By establishing the production facility first and producing on large scale, it can obtain an absolute cost advantage. It helps to reduce unit cost and pre-empt entry. This can serve as a barrier to entry
- The company brand name can get established and the image created can give the 'first mover' a strategic advantage over followers. This too can serve as an entry barrier.
- The brand name and customer loyalty can make switching costs difficult for customers. Customers are 'locked' into a firm's products because of preferences or special design characteristics.
- It can establish links with suppliers (of inputs)
- It can establish links with distributors.
- It can establish links with govt. institutions

(6 marks)

(ii) **Disadvantages**

- A first mover has to bear the risks of venturing into a new and largely unknown market
- A first mover has to bear the costs of developing the market which a follower can avoid e.g. establishing distribution channels and educating customers.
- The first mover might have invested in a technology that is fast becoming obsolete. Rapid technological advances allow a second mover (or follower) to leapfrog a first mover's new product.
- The first mover might be developing wrong capabilities as it is focusing on a customer set (early adopters) that may not be typical of the mass market.
- The first mover might lack a key complement that a follower possesses.

(4 marks)

(Total 10 marks)

- (b) **Red Oceans** are industries in existence today – the known market space. Industry boundaries are defined and accepted and competitive rules of the game are known. But, as the market space gets crowded, prospects for profits and growth are reduced

Blue Ocean strategy refers to the creation by a company of a new, uncontested market space that makes competitors and cost irrelevant and that creates new consumer value while decreasing costs (Kim &Mauborgne, HBR, Oct. 2004). The cornerstone of Blue Ocean strategy is value innovation.

Red Ocean Strategy	Blue Ocean Strategy
1. Focus: on existing consumers	Focus is on Non-customers
2. Compete: in existing market	Create uncontested market to serve
3. Beat competition	Make competition irrelevant
4. Exploit existing demand	Create & capture new demand
5. Obtain average profits	Obtain high profits

(Total 10 Marks)

Answer No. 04

- (a) Policies facilitate solving recurring problems and guide the implementation of strategy. Broadly defined, policy refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization's objectives. Policies and procedures guide the implementation instead of disrupting it. They,
- Provide top down guidelines about how certain things need to be done.
 - Help enforce consistency in how strategy critical activities are performed in geographically scattered organizational units.
 - Promotes a creation of a work climate that facilitates good strategy implementation
- (2 marks)**
- (b) A **strategic business unit** (SBU) is a profit center that focuses on product offering and market segment that is different from another SBU. SBUs typically have a discrete marketing plan, analysis of competition, and marketing campaign, even though they may be part of a larger business entity.
- (2 marks)**
- (c) Business process reengineering involves fundamental rethinking and radical redesigning of a business process which create value for the customer by eliminating barriers that create distance between employees and customers.
- (2 marks)**

Answer No. 05

Steps to be taken to implement the BSC

- i. Set up a meeting with all cross- functional managers and request MD to brief them on his intent of implementing the BSC project in the organisation. The MD will apprise the managers of the company situation, the challenges posed by environmental changes and intensifying competition, and the benefits of implementing the BSC in the company. You, as the Head of the steering committee, could also provide a broad overview of the BSC framework.
- ii. MD, with the steering committee members, will revisit the present vision, mission and strategy. If required, based on the MD/ Board of Directors' long term direction- the vision, mission and long term goals might have to be re-defined.
- iii. Organize a brainstorming session among employees (30 nos. cross function) and get their views regarding the way things are done and come up with any suggestions to improve performance management.
- iv. Steering committee members should come up with a plan of performance measurement, key performance areas and indicators (KPAs & KPIs) for the respective functions.
- v. Do a capability analysis on the four BSC perspectives and document.
- vi. Do a Gap analysis based on capability analysis and long- term goals.
- vii. Prepare the strategy and break down the objectives for functions in line with the firm's objectives into measurable terms.
- viii. Compare with KPAs/ KPIs as agreed and set up the BSC.
- ix. Communicate to all employees of the firm with the right level of information based on the responsibility and position.
- x. Organize awareness program on BSC for key managers and executives in each unit of the company.
- xi. Launch the BSC and inform the new reward system.
- xii. Implement measures and modify, if required, on a monthly basis at the BSC review meeting.
- xiii. Any other acceptable points will be considered for marking.

(12 marks)



Notice of Disclaimer

The answers given are entirely by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and you accept the answers on an "as is" basis.

They are not intended as "Model answers", but rather as suggested solutions.

The answers have two fundamental purposes, namely:

1. to provide a detailed example of a suggested solution to an examination question; and
2. to assist students with their research into the subject and to further their understanding and appreciation of the subject.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) makes no warranties with respect to the suggested solutions and as such there should be no reason for you to bring any grievance against the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). However, if you do bring any action, claim, suit, threat or demand against the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and you do not substantially prevail, you shall pay the Institute of Chartered Accountants of Sri Lanka's (CA Sri Lanka's) entire legal fees and costs attached to such action. In the same token, if the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is forced to take legal action to enforce this right or any of its rights described herein or under the laws of Sri Lanka, you will pay the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) legal fees and costs.

© 2013 by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior written permission of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
