

# **SUGGESTED SOLUTIONS**

**KB5 – Business Value Creation**

**December 2018**

# SECTION 1

## Answer 01

(a)

<b>Relevant Learning Outcome/s: 1.4</b>
Strategic capability and competitive advantage.
Study text reference: Pages 26 and 27

(i)

**Dynamic capabilities** refer to the ability of a firm to integrate, build and reconfigure internal and external competences to cater to rapidly changing environments. Dynamic capabilities may also be defined as the capacity of an organisation to purposefully create, extend and modify its resource base, which enables it to survive in the future as business conditions and markets change.

**Redundant capabilities** are resources and competences that an organisation has built up, but are no longer needed and no longer help to create value. As well as building up new strategic capabilities, firms should also dispose of redundant resources and cease to maintain competences that are no longer worthwhile.

(ii)

- Enable a firm to recognise strategic opportunities and threats present in the market.
- Allow a firm to seize strategic opportunities.
- Reconfigure the strategic capabilities of a firm to cater to changing business environments.

*A candidate can further mention that in the given scenario, Bluechip is the market leader and its products are far more superior to those of others due to its management and methods. Therefore the management and employees of the company could enable the firm to recognise strategic opportunities and threats present in the market.*

Procedures and systems used in the accounting division are becoming redundant in the face of competitive market changes, and there is a need for extending and modifying the resource base as a dynamic capability to compete successfully under the given business conditions. This involves focusing on building new capabilities in order to survive in the future.

(b)

<b>Relevant Learning Outcome/s: 1.5</b>
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Role of the accountant in value creation.
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Study text reference: Pages 28 and 29
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Accountants fulfill several functions. The most important functions are:

1. **Providing information to the management**  
Accountants provide financial and non-financial information obtained from various sources within the organisation as well as from sources outside the organisation.
2. **Management of information systems**  
The ability of the accountant to provide extensive information to the management has been improved by the development of IT systems and access to data from a wide variety of sources such as the Internet and in-house company databases.
3. **Supporting management decisions**  
The information provided by accountants to the management enables the management to make better quality decisions for both planning and control purposes. Accountants provide information for strategic planning purposes.
4. **Providing information for the directors to report to shareholders and other stakeholders**  
The accounting function maintains the accounting records and prepares the organisation's financial statements.
5. **Managing the organisation's finances and cash flows**  
The accounting function is responsible for managing the organisation's finances effectively. This includes management of cash flows and working capital. It also involves helping the organisation to raise new finance when needed and helping the management to invest its capital effectively.

**(Total: 10 marks)**

## Answer 02

(a)

<b>Relevant Learning Outcome/s: 2.1</b>
Supply chain management and competitive advantages.
Study text reference: Pages 39 and 41

### Responsiveness

- Supply customers quickly without any shortages. Customers may expect to receive the products as soon as they want to buy them since they are consumer goods. Thus all the products should be available in the market without any delay.

Responding quickly to customer orders creates value because customers are more likely to buy from companies that supply them faster. Since Goldilocks supplies to supermarkets and there is high competition in the market, its products should always be available in the stores for purchase.

- Maintain sufficient stocks in warehouses to promptly meet the demand arising from customers.

In order to meet customers' demand for goods, the company needs the materials and components from its own suppliers (e.g. farmers). Responsiveness therefore also means that Goldilocks has sufficient inputs (fruits) in warehouses or is able to quickly get them from suppliers.

### Reliability

- Deliveries should be reliable in terms of timeliness, quality and quantity. Value is created when customers are able to rely on a company to deliver the right amount of goods of the right quality at the time when they are expected. Especially when providing goods to supermarkets, quality and quantity matter a lot per the agreement with Goldilocks. Only then will customers rely on Goldilocks. On the other hand Goldilocks needs to have agreements with the farmers to buy their harvest at the right time and at the agreed quantity and quality.
- There should be transparency in the supply chain so that Goldilocks will be able to easily predict the required demand from customers and required ingredients from suppliers as and when needed.

(b)

<b>Relevant Learning Outcome/s: 2.1</b>
Supply chain management and competitive advantages.
Study text reference: Page 41

- **Reduce the number of suppliers** – Goldilocks can drop suppliers who are not responsive and not reliable, and focus on having strong relationships with reliable suppliers. This could also reduce administration costs and even enable the use of IT systems. However the remaining suppliers should have the capacity to deal with the demand of Goldilocks.
- **Reduce the number of customers** – Goldilocks could, if needed, focus only on its main profitable customers. However this could reduce sales of Goldilocks. It would perhaps be better to focus only on the target market *without trying to go for the mass market*.
- **Coordinate production, warehousing, sales and marketing** – ensure that production and warehousing match the sales requirement. This might need investment in IT in order to have a smooth flow of information from Goldilocks to suppliers and distributors.
- **Supplier involvement in product development and competent design**  
For companies that develop new products, value can be created by involving key suppliers at the product design stage. Suppliers may be able to suggest ways of producing materials more cheaply without a loss in quality.

**(Total: 10 marks)**

### Answer 03

<b>Relevant Learning Outcome/s: 3.3.2</b>
Discuss the application of Total Quality Management in businesses (including Six Sigma, Kaizen and SS).
Study text reference: Page 84

(a)

Juran defined quality as 'fitness for use'. Quality includes two elements:

- **Quality of design** – this includes the customer satisfaction built into the product. The given scenario emphasises that there is close governance from the regulatory bodies as well as rising competition. By specifically targeting urban consumers this competition would further increase. Therefore Glory should build quality into the design of the products so that the products will offer the solutions the customers are seeking, thus making them satisfied.
- **Quality of conformance** – this refers to a lack of defects in the finished goods. The products manufactured by Glory should meet the quality standards placed by the organisation and other regulatory bodies.

(b)

Kaizen means 'continuous improvement'. It is a philosophy that seeks additional small improvements continually; finding new improvements can never come to an end.

There are two basic approaches to improving quality.

- Glory can make major changes to the production process, and replace the existing process with a different and better system.
- Glory can continuously look for small ways in which processes and methods can be improved, and then implement them. Over time, a continuous stream of small improvements will add up to major improvements in quality.

Kaizen is based on the view that quality will be improved by continuous small improvements, and employees should be encouraged – and trained – to look for these. All the employees of Glory should be involved in the continuous improvement process.

According to Kaizen the management of Glory should view workers as the source of solutions, instead of viewing workers as the cause of problems. This would empower workers to find solutions that enable continuous improvements.

An essential feature of Kaizen is that the process of continual improvement never ends.

**(Total: 10 marks)**

## Answer 04

(a)

### Relevant Learning Outcome/s: 5.7.2

Evaluate ways to overcome resistance to change when implementing new strategies (including Cultural Web by Johnson and Scholes, three-stage change process by Kurt Lewin, hierarchy in managing change and Elizabeth Kubler Ross's Grief Cycle).

Study text reference: Pages 248 and 249

Major changes are often difficult to implement in large hierarchical organisations like SMP. There are several reasons for this.

- In hierarchical organisations there are many employees but it is only the few people at the top of the management hierarchy who are in a position to initiate change. Ideas for change from employees in the middle ranks of the organisation will often be ignored, or even not heard. According to the given scenario SMP is a family-owned business and perhaps the family members are at the top management. Therefore it is likely that they **do not like to listen other employees who work at the middle and lower levels of the company.**
- Even when the organisation's leaders see the need for change, they have to persuade several tiers of managers beneath them (as well as other employees) to agree on the need for this change. **This can take a long time.**
- Large bureaucratic organisations have a tendency to be conservative and resist change. The culture of these organisations is generally hostile to change. It is also difficult to impose change from the top **when subordinates are hostile.**

(b)

### Relevant Learning Outcome/s: 5.7.2

Evaluate ways to overcome resistance to change when implementing new strategies (including Cultural Web by Johnson and Scholes, three-stage change process by Kurt Lewin, hierarchy in managing change and Elizabeth Kubler Ross's Grief Cycle).

Study text reference: Page 250

There are three stages of change under the model.

- **Unfreeze** – this is the process of finding a way to get people to end their resistance to change (both individuals and groups) for the conversion of the company into a public quoted company, the new re-structuring and new management positions being filled by external sources. This could be achieved by finding ways to strengthen the driving forces for change or by weakening the restraining forces that resist change (or a combination of the two).  
*Candidates can attempt to identify the driving forces (new capital and expansion opportunities, more income, management know-how, more benefits, career advancements etc.) and restraining forces (fear of the unknown, expansion, complexity of hiring from the outside, fear of change itself etc.)*

- **Movement** – this stage involves making the change. It includes not just making the changes to operations and activities, but making changes to the thoughts, feelings and behaviour of the people affected. There may be a period of confusion during the move from the old ways of doing things to the new. The task of the change manager is to try and limit this confusion and promote the change.
- **Refreeze** – after a change has occurred, there may be a tendency for people to revert to the old ways after a while and for the changes to become lost and forgotten. Re-freezing involves establishing the change as a new mind set, so that it now becomes the accepted and normal/standard operating procedure. Without refreezing, employees will go back to the old ways of doing things and the old ways of thinking.

**(Total: 10 marks)**

**Answer 05**

(a)

**Relevant Learning Outcome/s: 5.3.2**

Compare and contrast methods of employee motivation and talent management.

Study text reference: Page 209

- **Certainty** – participation should be genuine. Employees should not be encouraged to make suggestions that are then ignored.
- **Consistency** – efforts to establish participation should be made consistently over a long period.
- **Clarity** – the purpose of participation is made clear (advise or make the decision).
- **Capacity** – employees should have the ability and be provided with information to participate effectively.
- **Commitment** – the manager in charge of the decision making process should believe in and genuinely support participation.

(b)

- **Job evaluation** – this is a systematic process for establishing the relative worth of jobs within an organisation. Its main purpose is to provide a rational basis for the design and maintenance of a fair pay structure. Rates of pay for a job are decided according to how the job is evaluated. The pay structure is determined by the **job content** and not on personal merit of the jobholder. This requires an in-depth analysis of the job and its tasks, which could consume time.
- **Fairness** – pay must be perceived and felt to match the level of work and the capacity of the individual to do it. However this carries a high level of subjectivity, as what one perceives as fair may not be so by another.
- **Negotiated pay scales** – pay scales, differentials and minimum rates may be negotiated at plant, local or national level between the prosper and the representatives of employees. However such negotiations would be time consuming and could also result in unfair deals through the abuse of power.



- **Market rates** – this is the market rate that most employers pay for a job. This method carries transparency, as it is a prevailing market rate. However this could again result in demotivation especially amongst those who perform well and are talented more than the average employee.
- **Individual performance on the job** – this is where, in addition to the basic pay, rewards are paid for good performance.

(Total: 10 marks)

## SECTION 2

### Answer 06

(a)

#### Relevant Learning Outcome/s: 4.1 and 4.6

4.1 Role of marketing strategies.

4.6 Managing marketing communication.

Study text reference: Pages 113, 142 and 143

Consumer goods are goods that can be used by consumers without the need for any further commercial processing. Consumer goods may be further classified according to the method by which they are purchased → convenience goods, shopping goods and specialty goods.

Krispy Crackers falls into the category of **convenience goods**. These are goods that consumers buy from a convenient location such as a local store or supermarket. These are goods that are often purchased regularly and are low-priced. They often have close substitutes, which may be sold under different brand names.

(b)

The promotional mix is the combination of activities used by marketing managers to promote a product or service. Unico should combine the promotional tools to form a promotional mix, and promotion itself needs to be combined with the other Ps in the marketing mix to create an overall marketing mix for Krispy Crackers.

- **Advertising** is a well-established method of marketing products. There are different advertising media: television, cinema, radio, newspapers, magazines, billboard posters, website advertising and so on. Krispy Crackers should use advertising heavily as it is a product targeted to all and it can be one of the best tools to use to introduce Krispy Crackers.
- **Point-of-sale displays** are displays of a firm's products at a place, usually within a retail store, where customers are likely to see them. They often involve a special price promotion, with the intention of tempting shoppers to buy the product. Point-of-sale displays can be used within modern trade as well as general trade to build awareness, interest and encourage trial purchase.

- The **design of packaging** may help to promote sales of Krispy Crackers, which are targeted at kids, teenagers and young adults, mature and elderly people. For example kids and youth would be attracted to the package. Further, to differentiate the product from the rest in the market, there is a need to use packaging.
- **Direct marketing** involves sending sales promotion material, such as brochures, directly to potential customers. The marketing material may be sent by post or email. To conduct direct marketing the firm needs to build up a database of potential customers. Direct marketing can be done at the initial stages to build awareness of the product. Application of direct marketing would be limited in the given scenario.
- **Sponsorship** involves providing financial support for sports and other events. The association of a sponsor's name with a major sporting event for example, may change the attitude of consumers towards the sponsor and the sponsor's products in a favourable way. Sponsor events can be targeted based on each segment and the appeal that would be created through positioning and the USP.
- **Public relations (PR)** involve trying to get favourable news reports about a firm in the media. Krispy Crackers can use event sponsorship etc. to build PR.
- **Consumer-based sales promotions** are any sales promotional techniques, from time to time, to increase awareness of products and boost sales. They can include a range of techniques such as cash discounts, samples, contests, coupons etc.
- **Personal selling** is selling by sales representatives ('salesmen'), either through face-to-face meetings with potential customers or by telephone. Application of personal selling would be limited in this scenario as this is a consumer good, which is intensively distributed, and also because the company currently has established retailer links through other related products. However salesmen can be used to introduce the product to wholesalers and retailers.

(c)

Unico can use both push and pull promotion policies when selling Krispy Crackers, as manufacturers of consumer goods often use a combination of both.

- The traditional 'push' marketing policy is concerned with transferring goods out to wholesalers and retailers, who then have the task of selling them to the ultimate final customer. A manufacturer may employ sales representatives to sell its products to major retailers. The emphasis of a push policy is therefore on getting dealers to accept the goods. Unico can distribute Krispy Crackers to wholesalers and retailers and use trade promotions to push the product.
- A 'pull' policy by comparison is one of influencing final consumer attitudes so that consumer demand is created, which dealers are obliged to satisfy. A pull policy usually involves heavy expenditure on advertising, but holds the potential of stimulating a much higher demand. For example, a manufacturer of a consumer product may advertise its product heavily, creating customer demand to buy the product. This customer demand should then persuade retailers to stock the product. Unico should build demand through pull promotion policies for Krispy Crackers.

(d)

<b>Relevant Learning Outcome/s: 4.7</b>
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Managing the product life cycle.
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Study text reference: Page 156
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Krispy is currently at the **introduction stage of the product life cycle**. A new product takes time to be accepted when it is first introduced to the market. Unico can use its already established brand name to promote the product, but there is a slow growth in sales. Unit costs are high due to low output and costly sales promotions. Marketing costs are high in order to get the product recognised by customers.

- Product – developing a product that meets the needs of customers in a target market. If the product is very new, this may be difficult and the first producers may not get the product features 'right' the first time. Since this is a new product to the market, the company might have to do significant changes to the product features to make the product more attractive.
- Price – the pricing strategy for a new product may be a price skimming strategy (charging a high price in the belief that a sufficient number of customers will be willing to pay this price) or a market penetration pricing strategy (charging a low price in order to build up demand for the new product quickly). In this scenario, based on the target market, Unico can select either strategy.
- Place – there will probably be limited distribution channels for a new product, and the challenge for the manufacturer is to find ways of making the product available to customers to buy. Unico can use the available channels that are already established to distribute the product.
- Promotion – spending on advertising and promotions may need to be high, initially to make potential customers aware of the existence of the product, then to create interest and then finally to persuade customers to buy it.

**(Total: 25 marks)**

## Answer 07

(a)

<b>Relevant Learning Outcome/s: 7.3</b>
Strategic purpose of an organisation.
Study text reference: Page 326

(a)

### Strengths

- EAP has been in the market for a long period (over 60 years), which would make it more reputed in its target market.
- The experience gained over the past 60 years would make EAP more knowledgeable of the changes in the market.
- EAP is the market leader.
- Reputation of being a good employer (long-term service of employees within the company).
- Experienced staff and their commitment to the company.

### Weaknesses

- Use of very little technology, which also happens to be outdated.
- Accounts, ordering and maintaining of records are done manually.
- Employees resist change.

### Opportunities

- Illnesses that have come up in the regions where the products are used, and increasing pressure on EAP to shift to manufacturing and selling organic products (Note: This can be both an opportunity and a threat, but it is more towards an opportunity).
- Investment in new technology due to the introduction of organic products.

### Threats

- High pressure from health and environmental authorities.
- Majority of farmers not willing to use the products.
- High taxes and high license fees.
- High cost of manufacturing the products.

(b)

<b>Relevant Learning Outcome/s: 7.6</b>
Evaluation and implementation of business level strategy.
(Including 7.6.2 – Recommend appropriate strategies using frameworks such as "Suitability, Acceptability, Feasibility (SAF) and/or McKinsey's 7S.")
Study text reference: Pages 360 and 361

The 7S model can be used by EAP to assess strategic choices by considering whether all seven elements in the model would be suitably aligned and consistent, or whether there is anything in any of the elements that would threaten the successful implementation of the strategy to launch and sell new organic products by EAP.

### Strategy assessment: Issues to consider

- **Strategy:** According to the given scenario, the strategy is to manufacture and sell organic products due to various illnesses in the regions where the company's products were used.
- **Structure:** Is this structure consistent with the proposed strategy?  
Since the new product line comes under the same industry (agricultural products) the current decision making structure and information sharing methods would be appropriate with more developed technology.
- **Systems:** What controls would be applied to ensure that the strategy is implemented successfully?  
Since the focus is now on organic products, controls have to be developed to ensure that these products are indeed organic. Further, systems have to be developed that support the manufacture of organic products.
- **Staff:** Staff might have to be recruited and/or the existing staff be trained on how to produce and market organic products.
- **Skills:** New competences and skills need to be developed to handle the operations involving organic agricultural products.
- **Style:** The management style might be adequate as it is still agricultural products they are dealing with.
- **Shared values:** Is the strategy consistent with the values of the mission and values of the organisation?  
Since some senior managers and employees do not consider this an important strategy there could be resistance. As a result change in attitudes might be needed.

Any inconsistencies or weaknesses should be identified. If the strategy is to be implemented successfully, these problems will have to be resolved. EAP should make sure that all seven elements are in alignment in order for change to be implemented successfully.

(10 marks)

(c)

<b>Relevant Learning Outcome/s: 6.1</b>
Technology and business value.
Study text reference: Page 275

- **Inbound logistics** – the use of IT will help to control inventory and also implement material requirements planning and enterprise resource planning systems that will help the business manage its inventory.
- **Operations** – IT will help to manufacture the products faster and ensure quality standards through methods such as computer-aided manufacturing.

- **Outbound logistics** – warehouse management systems can help managers with control of warehouse operations. Technologies such as RFID can be used.
- **Marketing and sales** – retailers can use EPOS systems that could be linked with the agrochemicals systems.
- **Service** – databases could be set up so that any service can be supplied if needed. This could include handling of customer complaints and provision of advice.
- **Procurement** – IT can automate purchasing decisions and can also be used as a link to a supplier with EDI.
- **Human resource management** – IT applications could also include the maintaining of a skills database and staff planning.
- **Firm infrastructure** – extranets and intranets could be used to aid communication and an ERP system could be used across the organisation.

**(Total: 25 marks)**



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