

Corporate Strategy and Contemporary Issues

Instructions to candidates

- (1) Time allowed: Reading and planning – 20 minutes
Writing – 3 hours
- (2) Total: 80 marks
- (3) The examination will be conducted as an open book examination.
- (4) This question paper should be answered entirely in the **ENGLISH** language.
- (5) Your answer must be submitted in the answer booklets provided at the Examination Hall.
- (6) Any pre-prepared papers included in your answer **WILL NOT** be marked.
- (7) After the instruction to stop writing at the end of the paper, you will be given five minutes to assemble your answer booklet/s.

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**DECEMBER
2018**

Minerva group

Inaugural management meeting of Minerva group

In the past, Migara used to make operational decisions with one of the general managers or with the executive director relating to their respective divisions/companies. The group did not have a practice of having periodic discussions among the management team. Migara preferred to maintain the operational matters as confidential as possible only among the people who were directly involved. As a result, even the senior management was not aware of any mutual issues the other divisions/companies had.

With financial management becoming significantly critical for all divisions/companies, Primal persuaded Migara to have a collective meeting among the senior management to discuss the current issues. Consequently, Minerva group had a joint performance review meeting in early July 2018.

Given in **Annexure 3** are the meeting notes prepared by the personal assistant of Migara.

Per the decision at the meeting, Migara spoke to Nilan Werapitiya, one of the directors at a consulting firm called Business Doctors (BD), about the situation of the group and subsequently sent the email given in **Annexure 4**.

Business Doctors commences diagnosis

Following the appointment by Minerva group, BD commenced their work initially with the objective of diagnosing the issues. BD appointed a team under the supervision of its director, Nilan Werapitiya, with Buddhini Amarasinghe as the team leader. Nilan is a Chartered Accountant with a Master's Degree while Buddhini is a CA Finalist awaiting results of KC5 examination.

After a preliminary study of the affairs of Minerva group over a week, Buddhini made a presentation to Nilan and, the team discussed with Nilan as to the detailed work and compilation of the report. An extract of the internal meeting notes is given in **Annexure 5**.

Migara was of the view that Buddhini and the team had completed the assignment. He called Nilan and asked to present their findings with a report at the next board meeting. Nilan explained that only a preliminary study had been performed but upon insistence of Migara, he agreed to provide an interim report on limited areas. Accordingly, Nilan sent the email given in **Annexure 6** to Buddhini.

Required:

Assuming you are Buddhini Amarasinghe;

Compile the contents for the Interim Report based on the instructions (1 – 8) given by Nilan Werapitiya in his email (**Annexure 6**) to Buddhini Amarasinghe.

(You are not required to prepare a Contents page, Executive summary, Introduction or Conclusion).

(Total: 80 marks)

Annexure 3

Minerva group Meeting notes of the joint performance review meeting 5 July 2018

Attendees:

- Migara Siriwardhana (Chairman/Managing director)
- Nerasha Siriwardhana (Director)
- Sujith Perera (Executive director – Minerva Exports)
- Vijith Rajasinghe (General manager)
- Sahan Kariyawasam (General manager)
- Harshana Munaweera (Business development manager – Minerva Exports)
- Primal Thilakarathna (Accountant)
- Dulika Chandrasena (Assistant accountant – Minerva Exports)

Minerva Exports

Migara provided an update on the performance of Minerva Exports with the assistance of financial numbers provided by Dulika who mentioned that Minerva Exports had faced significant financial and liquidity problems due to losses incurred.

The company was way behind the projected revenue targets. One reason was that the government suspended further construction activities of the Grand Hyatt project as a result of which Minerva Exports could not materialise the expected business from that project. Minerva Exports also could not secure the power panel supply contract of the Water Front project due to a technical error in the tender submitted.

Export orders from the potential markets had also not worked out as expected. Harshana provided a progress report on business development efforts which are summarised below.

- **Kenya and Nigeria:** There is a significant demand for power panels as there are many construction projects coming up. However the respective governments do not encourage imports to the country instead offer incentives on setting up manufacturing plants as joint ventures with local partners.
- **Ethiopia:** There is a significant demand for power panels as there are many construction projects coming up. However the country lacks reserves of hard currency and as a result settlement for imports into the country has been slow. Further, they are not in favour of opening LCs and also banking connectivity has been poor.
- **Myanmar:** The market is very competitive as competitors from many other countries including Sri Lanka have already established in the market.

Dulika pointed out that the losses had been accumulating due to committed fixed costs where the contribution generated from the limited revenue was not sufficient to cover the overheads. It was also highlighted that the winning ratio of bids submitted during the past one year for new business had been only 15%. The tenders were not accepted either due to technical errors in design or not being competitive in price or both. The company also had a large amount of inventories which had been imported in anticipation of the two projects, Grand Hyatt and Water Front.

Minerva Engineering

The financial numbers as given in Annexures 1 and 2 were presented at the management review meeting by Primal. Primal highlighted in his presentation that certain import demand loans had been rescheduled to be paid over five years. The bank had imposed restrictions on the bank facilities and had refused to enhance any further facilities while completely ceasing to provide any temporary overdraft facilities. This would mean that the company should restrict its payments only to the extent of cash receipts. It was further pointed out that the average monthly turnover/cash receipts during the first quarter of 2018/19 had been below expectation. The forecast for 2018/19 would also be bleak as the company was not winning tenders as in the past and collections for work done would also be difficult. The operating profit of 2018/19 was anticipated to end up 20% below 2017/18 on the assumption that administrative and selling and distribution expenses in 2018/19 would remain at same levels as in 2017/18.

Having looked at the trends, Migara expressed concern on the declining trend in profits and high level of indebtedness. Nerasha complained that since the inception of the company they, as shareholders, had not taken any dividends out of the company. She expressed dissatisfaction on the current state of the company even after reinvestment of all the profits in the company. Migara indirectly blamed Primal that the present crisis was due to his poor financial control.

Conclusion

At the end of the meeting the board decided, upon suggestion by Migara, to appoint 'Business Doctors (BD)' a consulting firm, to provide a report on how the present situation has arisen and propose any viable solutions.

Annexure 4

To: Nilan Werapitiya
From: Migara Siriwardhana
17 July 2018

Subject: Diagnostic study on Minerva group

Dear Nilan,

This refers to the telephone conversation I had with you on the above matter.

As explained in the conversation, Minerva group which was functioning well previously, has been encountering financial problems with its profits experiencing a declining trend. I suspect that this situation has arisen due to poor financial control. However as you mentioned there could be other non-financial reasons too.

I would like to appoint your firm to conduct a comprehensive diagnostic study to identify the causes given rise to this situation with a view to rectify any short comings.

As part of your exercise please also provide proposal(s) to restructure the balance sheet and operations of Minerva Engineering with the view of continuing its business effectively.

Further, I have found an investor who would be interested in buying the business of Minerva Engineering on a debt-free, cash-free basis (the acquirer will not accept the responsibility for debt and will not acquire any cash or cash equivalents). I believe that Minerva brand is well established and much sort after and therefore, could fetch a much significant value. In this respect, I would like you to provide me with an indicative valuation for the Minerva Engineering.

Thank you.

Migara

Annexure 5

Business Doctors – Internal meeting notes

12 August 2018

Present: Nilan, Buddhini and team members on Minerva assignment

Matters noted:

Both Minerva Engineering and Minerva Exports face critical financial issues.

While financial control could be one issue there are many other strategic issues causing this situation, such as the:

- Governance strategy including leadership and risk management
- Human resource strategy
- Competitive strategy
- Marketing strategy including pricing strategy

It was also noted that there had been significant weaknesses in internal controls and processes.

The following were noted based on financial statements of Minerva Engineering:

- Property, plant and equipment include two plots of land acquired in 2015/16 for LKR 30 million. One of the lands is used as a car park for employees while the other is not used for any purpose. The current market value of these two lands is estimated to be LKR 40 million.
- Other income is analysed as follows.

	2014/15	2015/16	2016/17	2017/18
	(LKR '000)			
Scrap sales	5,711	6,220	5,400	9,340
Interest income and exchange gain	830	1,070	2,612	5,687

- Administrative and selling and distribution expenses together included the following.

	2015/16	2016/17	2017/18
	(LKR '000)		
Chairman's remuneration	4,800	5,400	6,000
Other payments to directors*	9,220	15,400	18,400
Instalments for chairman's apartments	2,320	6,960	6,960
Donations made on chairman's request	3,000	3,500	4,500
Remuneration of Vijith and Sahan	12,000	13,200	14,400
Other executive remuneration	23,536	28,943	26,732
Depreciation	1,129	1,073	1,211

- * Other payments to directors include fuel, car rental, drivers' salaries, personal overseas travel, children's education expenses and directors' fees.

Annexure 6

From: Nilan Werapitiya
To: Buddhini Amarasinghe

Dear Buddhini,

Minerva group - Diagnostic analysis

Migara would like to have an interim report on the above assignment to be presented at the next board meeting of Minerva group.

I would therefore like you to prepare a draft report addressing the following specific areas. Since it is an interim report do not worry about the order of contents and our typical report features: Executive summary, Introduction and Conclusion.

Areas to be addressed:

With respect to both companies as a whole;

- (1) Evaluate the strategic issues which could have caused the present situation under the following categories:
 - (a) Governance and leadership strategy
 - (b) Human resources strategy
 - (c) Risk management strategy
 - (d) Finance strategy
 - (e) Any other
- (2) Demonstrate possible causes of not being able to win tenders.
- (3) Propose modern cost management techniques which may be used to optimise and better manage the costs so that their pricing would be competitive.
- (4) Criticise Migara's view on the Minerva brand.

With specific reference to Minerva Engineering;

- (5) Advise on an indicative valuation on a debt-free, cash-free basis. For this purpose, I would suggest to use a pre-tax discount rate of 18% and to assume 4% YOY growth in operating profits from 2019/20 onwards with more disciplined management.
- (6) Develop strategic proposals indicating the financial impact, to restructure the balance sheet that would ease the debt burden, improve efficiency and facilitate continuation of the business in a profitable manner.

With specific reference to Minerva Exports;

- (7) Evaluate the strategic issues with reference to the competitive environment surrounding Minerva Exports which may have caused the present situation.
- (8) Propose marketing and business development strategies for the medium term.

Regards,

Nilan

Mark allocation	Marks
1. Strategic issues related to Governance and leadership, Human resources, Risk management, Finance and any other	15
2. Possible causes of not winning tenders	05
3. Modern cost management techniques	05
4. View on the Minerva brand	05
5. Indicative valuation	10
6. Strategic proposals to restructure the balance sheet	15
7. Strategic issues with reference to competitive environment of Minerva Exports	10
8. Marketing and business development strategies	15
Total	80