CA

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

SUGGESTED SOLUTIONS

22404 – Business Strategy and Knowledge Management

CA Professional (Strategic Level II) Examination
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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Answer No. 01

(a) (i) Forming a strategic vision of where the organisation is headed – so as to provide long-term direction, delineate what kind of enterprise the company is trying to become, and infuse the organisation with a sense of purposeful action.

(ii) Setting objectives – converting the strategic vision into specific performance outcomes for the company to achieve

(iii) Crafting a strategy to achieve the desired outcomes

(iv) Implementing and executing the chosen strategy efficiently and effectively

(v) Evaluating performance and initiating corrective adjustments in the vision, long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities

(b) Considering the capability of the company, it is important to realise that the source of competitive advantage for a firm is through the core competencies which distinguish a company competitively and reflect its personality. It emerges over time through an organisational process of accumulating and learning how to deploy different resources and capabilities. Core competencies are the essence of what makes an organisation unique in its ability to provide value to customers over a long period of time.

Not all of a firm's resources and capabilities are strategic assets (i.e. assets that have competitive value and the potential to serve as a resource of competitive advantage). Some resources and capabilities may result in incompetence because they represent competitive areas in which the firm is weak compared to competitors. Therefore strategic managers are challenged to have in-depth understanding of their firm's resources and capabilities, to find external environmental opportunities that can be exploited through the firm's capabilities while avoiding competition in areas of weakness.

Considering the company experience in the industry and the competency it possess, by understanding the,

- Valuable capabilities
- Rare capabilities
- Capabilities that are costly to imitate
- Capabilities that are non-substitutable,

the company would be able to deploy its strengths to maximise company performance.

(c) Firms go international due to a variety of reasons which include:

- Seek opportunities for growth through market diversification
- Earn higher margins and profits
- Gain new ideas about products, services, and business methods
- Better serve customers that have relocated abroad
- Be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products

- Gain access to lower-cost or better-value factors of production
- Develop economies of scale in sourcing, production, marketing, and R & D
- Confront international competitors more effectively or thwart the growth of competition in the home market
- Invest in a potentially rewarding relationships with foreign partners

International business involves any business transaction between parties from more than one country. It includes such activities as buying and selling raw materials, inputs or finished products across borders, operating plants in other countries to take advantage of local resources, and borrowing money from one country to finance operations in a second country.

International business is different from domestic business in that it necessarily involves transactions that cross national borders while domestic business does not.

International business differ from domestic business mainly in complexity involved and risk.

Complexity – macro forces differ from country to country – economic conditions, national culture, legal and political systems vary by country.

Risk – uncontrollable variables over which the firms has little or no control. Foreign involvements involves new risks that firms must manage. Broadly, risk in internationalisation can be categorised into several risks such as cross-cultural risk, country risk, currency risk, and commercial risk.

Cross-cultural risk

- Differences in language, lifestyles, attitudes, mind-sets, customs, and religion
- Cross-cultural literacy is critical so as not to jeopardise culturally-valued mind sets or behaviours
- Cultural blunders hinder the effectiveness of foreign managers
- Language - critical dimension of culture, a window to people's values
- Language differences impede effective communication
- Cultural differences may lead to inappropriate business strategies

Country risk or political risk

- Differences in host country political, legal and economic regimes may adversely impact firm profitability
- Laws, regulations and indigenous factors e.g. property rights, intellectual property protection, product liability, taxation policies, inflation, national debt, and unbalanced international trade, may encumber firm operations and performance
- Government intervention restricts market access, imposes bureaucratic procedures hindering business transactions' and limits the amount of earned income that firms may repatriate from foreign operations
- Economic freedom differs among nations. The 2010 Index of Economic Freedom from the Heritage Foundation ranks Hong Kong, Singapore and Australia as the top three in terms of having the highest levels of economic freedom

Currency or financial risk

- Risk of adverse exchange rate fluctuations, inflation and other harmful economic conditions create uncertainty of returns due to the growing interconnectedness of national economies
- When currencies fluctuate significantly, the value of a firm's assets, liabilities and/or operating income may be substantially reduced

Commercial risk

- Poor development/execution of business strategies, tactics or procedures, e.g. partnering selections, market entry timing, pricing, products features, and promotional themes
- Failures in international markets are far more costly than domestic business blunders
- Commercial risk is also often affected by currency risk, because fluctuating exchange rates can affect various types of business deals

<u>Answer No. 02</u>

(a) <u>Approaches to Corporate Level Strategies</u>

Corporate level strategies can be approached in number of ways. In this text we use three approaches to corporate level strategy that companies use to decide which business they should be in:

- Directional/Grand strategy (growth strategies – expansion into new products and markets, stability strategies – maintenance of the status quo and retrenchment/recovery strategies – reduce the company's level of activities)
  - Growth strategies – expand the company's activities
  - Stability strategies – make no change to the company's current activities
  - Retrenchment strategies – reduce the company's level of activities

- Portfolio strategy – portfolio strategy is a corporate level strategy that minimizes risks by diversifying investments among various business or product lines. Simply portfolio strategy guides the strategic decision of firms that compete in a variety of businesses and determine the mix of business units and product lines that will provide a maximum competitive advantage;

  - How much of our time and money should we spend on our best products and business units to ensure that they continue to be successful and
  - How much our time and money should we spend developing new costly products, most of which will never be successful

  Two of the most popular portfolio techniques are the BCG Growth-Share Matrix and GE Business Screen.

- Parental strategy - is a strategy that determines the manner in which management co-ordinates activities and transfers resources and cultivates capabilities among product lines and business units.
    - Examine each business unit (or target firm in the case of acquisition) in terms of its strategic factors
    - Examine each business unit (or target firm) in terms of areas in which performance can be improved
    - Analyze how well the parent corporation fits with the business unit (or target

(b) A company may pursue retrenchment strategies when it has a weak competitive position in some or its entire product lines resulting in poor performance – sales are down and profits are becoming losses. These strategies impose a great deal of pressure to improve performance. In an attempt to eliminate the weaknesses that are dragging the company down, management may follow one of several retrenchment strategies, ranging from turnaround or becoming a captive company to selling out, or liquidation.

Turnaround strategy – emphasizes the improvement of operational efficiency and is probably most appropriate when a corporation's problems are pervasive but not yet critical. Research shows that poorly performing firms in mature industries have been able to improve their performances by cutting costs and expenses and by selling off assets. Two basic phases of a turnaround strategy are contraction and consolidation.

Contraction – is the initial effort to quickly "stop the bleeding" with a general across the board cutback in size and costs. For example, when Howard Stringer was selected to be CEO of Sony Corporation in 2005, he immediately implemented the first stage of a turnaround plan by eliminating 10,000 jobs, closing 11 of 65 plants, and divesting many unprofitable electronic businesses.

Consolidation – implements a program to stabilize the now-leaner corporations. To streamline the company, plans are developed to reduce unnecessary overhead and to make functional activities cost justified. This is a crucial time for the organization. If the consolidation phase is not conducted in a positive manner, many of the best people leave the organisation.

Captive Company Strategy – involves giving up independence in exchange for security. A company with weak competitive position may not be able to engage in a full-blown turnaround strategy. The industry may not be sufficiently attractive to justify such an effort from either current management or investors. Nevertheless a company in this situation faces poor sales and increasing losses unless it takes some action. Management desperately searches for an "angel" by offering to be a captive company to one of its larger customers in order to guarantee the company's continued existence with a long-term contract. In this way, the company may be able to reduce the scope of some of its functional activities, such as marketing, thus significantly reducing costs.

Sell-out/Divestment Strategy – a company with a weak competitive position in an industry is unable either to pull itself up by its bootstraps or to find a customer to which it can become a captive company, it may have no choice but to sell out. The sell-out strategy makes sense if management can still obtain a good price for its shareholders and the employees can keep their jobs by selling the entire company to another company. The hope is that another company will have the necessary resources and determination to return the company to profitability.

Bankruptcy/Liquidation Strategy – company finds itself in the worst possible situation with a poor competitive position in an industry with few prospects, management has only a few alternatives – all of them distasteful. Because no one is interested in buying a weak company in an unattractive industry, the firm must pursue a bankruptcy or liquidation strategy.

- **Bankruptcy** involves giving up management of the firm to the courts in return for some settlement of the company's obligations. Management hopes that once the court decides the claims on the company, the company will be stronger and better able to compete in a more attractive industry.
- **Liquidation** is the termination of the company. When the industry unattractive and the company too weak to be sold as a going concern, management may choose to convert as many saleable assets as possible to cash, which is then distributed to the shareholders after all obligations are paid. Liquidation is prudent strategy for a distressed company with a small number of choices, all of which are problematic.

Answer No. 03

(a) Integration is a corporate level strategy that focuses on gaining competitive advantage in a single market or industry. Integration can happen as vertical integration and horizontal integration. An integration strategy is considered a growth strategy in which an organisation concentrates on its primary line of business and looks for ways to meet its strategic growth goals expanding its core business.

Vertical integration – is considered a growth strategy because an organisation's activities and operations are expanded by controlling its inputs, outputs, or both. Studies of an organisations' vertical integration strategy have shown mixed results in terms of whether the strategy helped or hurt performance.
Studies confirm some of the advantages associated with vertical integration; these include reduced purchasing and selling costs, improved coordination among functions, capabilities, and protection of proprietary technology to name a few.
Vertical integration increases a firms' value added margins for a specific processing chain and thereby allows them to enjoy scale or integration economies, as well as great control over sources of raw material or distribution outlets. Vertical integration has two streams.

- **Backward Integration** – the company seeks ownership or control of its supply systems, offers the potential for converting a cost centre into a profit producer. Simply, the company gains control of its inputs or resources by becoming its own supplier. This is especially attractive when suppliers have a high profit margin. Backward integration also has a potential to reduce dependency upon supplies and to permit the company to coordinate and routinize its operating cycle. Backward integration helps the quality of raw materials. This is important for companies adopting total quality management and JIT systems.
- **Forward Integration** – the company gains control of its outputs (products or services) by becoming its own distributor. Forward integration will be more effective when; the company's present distributors are expensive or unreliable, or incapable of meeting firm's distribution needs, when the availability of quality distributors is so limited as to offer a competitive advantage to those firms that integrate forward, when an organisation competes in an industry that is growing and expected to continue to grow markedly, when an organisation has both the capital and human resources needed to manage the new business, when the advantage of stable production are particularly high, when present distributors have high profit margins.

Horizontal integration – is expanding the organisations operations through combining with other organisations in the same industry doing the same things it is doing. It refers to a strategy of seeking ownership of or increased control over the firms' competitors. Mergers, acquisitions, and takeovers among competitors allow for increased economies of scale and enhanced transfer of resources and competencies. Horizontal integration lowers the cost structure (crates increasing economies of scale, reduces the duplication of resources between two companies), increases product differentiation (product bundling – broader range at single combined price, total solution – saving customers time and money, cross-selling, leveraging established customer relationships), replicate the business model, reduce industry rivalry (eliminate excess capacity in an industry, easier to implement tact price coordination among rivals), increases bargaining power (increase market power over suppliers and buyers, gain greater control)

(b) A diversified corporation or a multi-business company is often viewed as consisting corporate headquarters or centres with SBU. The manner in which the centre manages nurture the individual business is known as corporate parenting. The corporation is viewed in terms of resources and capabilities that can be used to build individual business as well as create synergies across these businesses.

In contrast, portfolio analysis typically attempts to answer questions such as; what businesses should the company own and why? What organisational structure, management processors, and philosophy will foster superior performance from the company business units? Unfortunately, portfolio analysis fails to deal with the question of what industries a corporation should enter or with how a corporation can attain synergies among its product lines and business units. As suggested by its name, portfolio analysis tends to primarily view matters financially, regarding business units and products lines as separate and independent investments.

Corporate parenting generates corporate strategy by focusing on the core competencies of the parent corporation and on the value created from the relationship between the parent and its businesses. In the form of corporate headquarters, the parent has a great deal of power in this relationship. According to Campbell, if there is a good fit between the parent's skills and resources and the needs and opportunities of the business units, the corporation is likely to create value. Accordingly if there is no good fit, the corporation is likely to destroy value.

The primary job of corporate headquarters is therefore to obtain synergy among the business units by providing the needed resources to units, transferring skills and capabilities among the units, and coordinating the activities of shared unit functions to attain economies of scope (as in centralised purchasing). This approach to corporate strategy is useful not only in deciding what new businesses to acquire but also in choosing how each existing business unit should be best managed.

This appears to have been the secret to the success of General Electric under CEO Jack Welch. According to an analyst in 2000, he and his managers really added value by imposing tough standards of profitability and by disseminating knowledge and best practice quickly around the GE Empire.

Answer No. 04

(a) AI is the science of providing the computers with intelligence that is somewhat closer to human intelligence.

Usage is open ended. Candidate may mention AI disciplines to illustrate its use, or the benefits of AI, use of AI in knowledge management, etc.

(b) (i) **Searching**
Search the knowledge base for several answers in an efficient manner (such as the use of search trees).
This will be a suitable technique, as the NHDS staff anyway need searching for suitable answers from the knowledge base.

(ii) **Logic**
Several forms of logic are used in AI techniques, e.g., sequential/propositional logic, first order logic and fuzzy logic.
Only first order logic that can express facts about objects may be suitable, as the other two types output either true or false, which is unlikely to be an answer expected by a caller to NHDS.

(iii) **Probabilistic methods**
This technique is used when it is needed to operate with uncertain information, and hence use probability theory to solve problems.
As this method can use reasoning, planning, learning and perception, it is suitable for the learning process of the systems and the construction of the knowledge base

(iv) **Statistical methods**
This technique is used to classify items into groups, and it is a central part of many AI systems.
Classifiers can be used to perform pattern matching and determine the closest match, which can be used in providing answers to the queries

(v) **Institutional repositories**
Used to store intellectual outputs of an institute in digital form, that can be reports, thesis, articles, etc.
Many government agencies and other institutes regarding which the details have to be provided, will have many reports, articles, etc., and will be a good asset for the knowledge base

(vi) **Digital libraries**
These may contain contents that are either digitally created or physically existed and later converted to digital form.
Some legal documents, archives, and historical information may be preserved in this manner, e.g., national archives, and therefore will be useful in this project

Answer No. 05

(a) The knowledge embedded in an expert which may require capturing the thoughts and experience of the expert.

(b) It is possible to use forums, blogs, etc., to capture tacit knowledge of the experts, and may even use surveys and questionnaires, and then codify and store such captured tacit knowledge in the knowledge base. This is one reason why AI may be needed.

Alternatively, someone may argue that the knowledge used in the NHDS are more structured, provided through different organisations using the details they already have, and need to be provided with facts, and can be retrieved from web based and other systems without involvement of experts.

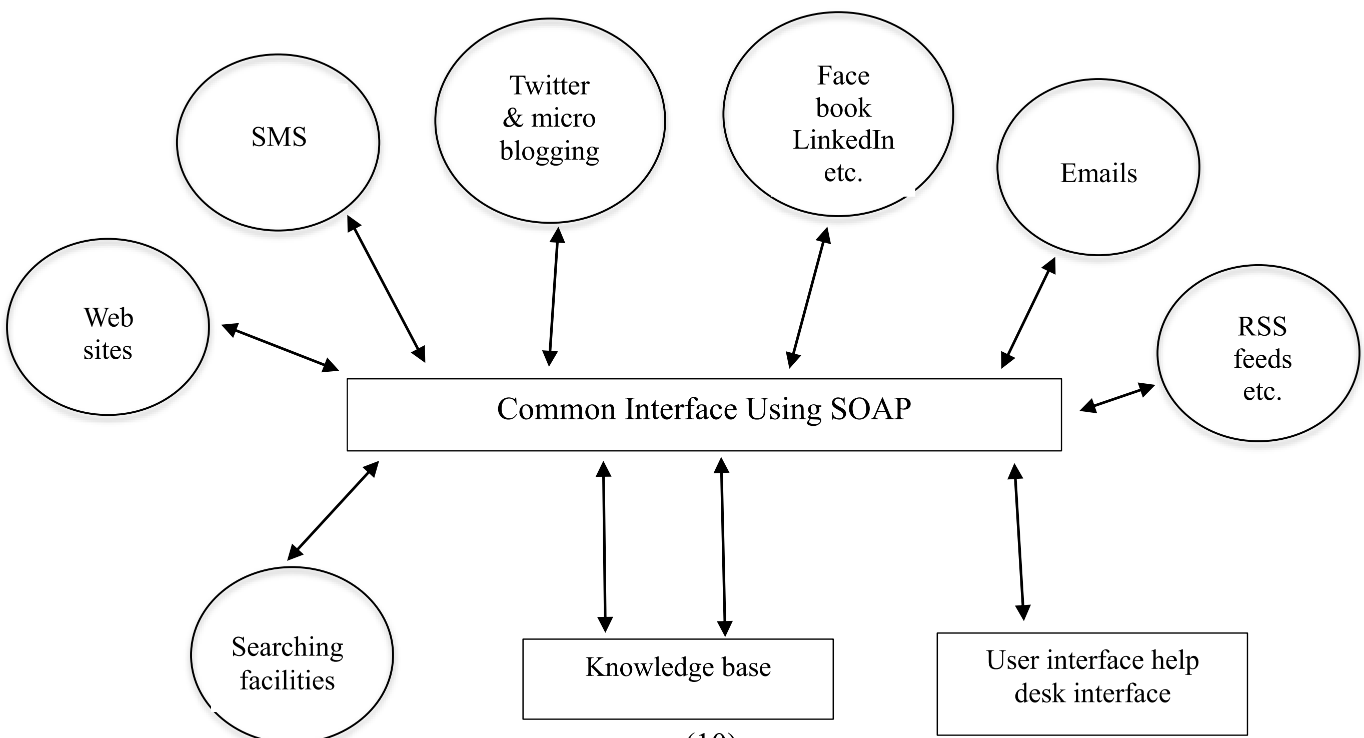
(c) Most of the features and facilities given in second paragraph of the case study refer to social networking tools such as forums, blogs, RSS feeds, search engines, .etc.

The system also needs to support ubiquitous computing due to mobile phone and SMS usage.

It is essential that AI tools, data mining tools, data repositories, etc., are incorporated.

Due to the need to integrate many systems, integration technologies such as web services (or may mention SOAP) or some common information exchange mechanism should be in place

Diagram expected



Answer No. 06

(a) Step (1)

Developing and understanding the application domain.
This step includes learning the relevant prior knowledge and the goals of the end user.

Step (2)

Creating a target data set.
This step usually includes querying the existing data to select the desired subset of data.

Step (3)

Data cleaning and pre-processing.
This step controls of removing outliers, dealing with notice and missing values in the data.

Step (4)

Data reduction and projection
This step consists of finding useful attribution by applying dimension reduction and transformation methods.

Step (5)

Choosing the data mining task.
The data miner matches the goals defined in step (1) with a particular Data Mining Method.

Step (6)

Choosing the data mining algorithm.
The data miner selects methods to reach for patterns in the data and decides which models and parameters of the methods used may be appropriate.

Step (7)

Data mining.
This step generates patterns in a particular representational form, such as classification rules, decision trees, association rules, trends etc.

Step (8)

Interpreting mined patterns.
The analyst performs visualisation of the extracted patterns and models and the data bases on the extracted model.

Step (9)

Consolidating discovered knowledge.
This steps counts of incorporating the discovered knowledge into the performance system, documenting and reporting it to the interested parties and checking and revolving potential conflicts with previously believed knowledge.

(b) Advantages of interviews

- Flexible tool
- Excellent for evaluating the validity of information
- Very effective in case of eliciting information regarding complex matters
- Often people enjoy being interviewed

Disadvantages of interviews

- Very time consuming and costly
- Success of interviews is highly dependent on the knowledge developer's human relation skills
- Interviews may be impractical due to the location of the interviewee.

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2. to assist students with their research into the subject and to further their understanding and appreciation of the subject.

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