

Corporate Strategy and Contemporary Issues

Instructions to candidates

- (1) **Time allowed:** Reading and planning - 20 minutes
Writing - 3 hours
- (2) **Marks:** 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
2016**

The TFA Group

In a subsequent strategy session of the TFA Group that was held in November 2016, the following findings were noted by Amal, which he considered to be relevant in arriving at the corporate and business level strategic decisions and directions.

(i) **Vehicle import and sales**

This undoubtedly is the group's leading SBU and has shown a steady growth both in terms of sales and profits.

(ii) **TFA Safe Repair Workshop (TFASRW)**

A market research agency has validated TFASRW's marketing concept, its market driven vision and the segmentation of its target markets.

(iii) **TFA Insurance Brokers (TFAIB)**

Amal is of the opinion that TFAIB needs to strategise carefully in a manner that it will not merely hide under the laurels of the parent company and its customer base, but truly realise its business potential and genuinely look to create growth and value.

(iv) **TFA Rent-A-Car Company (TFARAC)**

The rent-a-car industry operates with a lot of competitive intensity even when one considers this industry in the light of Michael Porter's approach to industry analysis. This is because of the factors such as the ease with which the new entrants can enter the market as well as the price conscious buyer groups that exist in the industry. As a whole, apart from the potential growth in the tourist industry and the prospects of general economic growth, collectively one may logically conclude that there is high degree of industry level competitiveness in the rent-a-car industry.

(v) **Reliable Business Finance Company (RBF)**

Further examination of the product groups of RBF and the small business financing sector revealed the following information.

The small business financing sector consists mainly of two broad segments of small businesses in search of short-term working capital facilities. The first segment, which is what Finance Company Y operates in, consists of those businesses which have a somewhat permanent business premises and market their products to the general public. This includes small retailers as well as some small scale manufacturers of merchandise like garments and furniture. Most often they have to formally register their businesses. The second segment consists of short-term working capital needs of much more informal businesses. This includes individual entrepreneurs such as fishermen, small scale trading middle-men, home-based small scale subcontracted manufacturing operations

engaged in footwear, garments etc., who at most times will not have established places of business. In fact lending to this type of customers may even be classified as 'micro finance'. RBF is primarily engaged in this second segment of the small business category. Despite the carefully designed 'standard operating procedures' (done with the aid of an Indian-based consulting organisation), in practice it is often very difficult, when granting loans, to ensure that the customers essentially deploy the funding for business related activities despite company policy having clearly ruled out lending for consumption purposes. Lending to both these segments entail weekly collection, as well as intense supervision and supervisory controls in granting credit, in the form of personal inspections and verification of addresses and cash flow based assessments for establishment of the repayment capacity.

Following the Central Bank's annual audit and the recommendations made by the newly appointed general manager, RBF has taken a conscious decision to concentrate largely (at least 60 percent of their future lending in the small business segment) on the first segment of small businesses; a major shift from the exiting lending portfolio that is mostly skewed towards the second segment. Nevertheless, dealing with more 'business oriented' lending brings about some different challenges that the field loan officers will have to now get trained and accustomed to. The new set of customers will expect shorter cycle times of loan processing and higher loan sizes compared to the previous informal customer segments whose bargaining power was extremely low. RBF however has the opportunity to verify and validate credit quality through accessing The Credit Information Bureau of Sri Lanka (CRIB) which means the company will be able to select less risky customers.

The share capital of the four finance companies namely RBF, Finance Company X, Finance Company Y and Finance Company Z consists of 2 million, 10 million, 2 million and 3 million shares of Rs. 100 each respectively.

Companies Y and Z are quoted companies in the CSE and their shares are traded at Rs. 700 per share and Rs. 900 per share respectively.

Most deposits in all four finance companies are in the form of fixed deposits, ranging from a tenor of 6 months to 2 years.

Required:

Assume you are Achala, the CFO, working closely with the planning director Amal in order to improve the strategic competitiveness of the TFA Group.

You have been asked to **prepare** a report to the board of directors of TFA covering the following areas that the planning director has requested.

In your report,

- (a) **Propose** appropriate growth options for TFA Insurance Brokers.
- (b) **Validate** the contribution of HR practices in TFA Safe Repair Workshop's competitive advantage.
- (c) **Recommend** four (04) ways in which value can be created through the supply chain in TFA Safe Repair Workshop's 'bearings' division.
- (d) **Propose** business strategies for TFA Rent-A-Car, taking into account of key strategic issues confronting the company.
- (e) **Calculate** an offer to be made to acquire Reliable Business Finance Company (RBF).
(Show all workings, and state any assumptions together with reasons)
- (f) **Propose** changes in competitive strategy for Reliable Business Finance Company (RBF), in the event of an acquisition.
(Show all workings, analyses and the reasons for suggested changes)
- (g) **State** corporate governance issues relevant to the appointment of Amal Peiris, who has now completed his PhD, as the CEO/chairman of RBF, in the event of a possible acquisition.
- (h) **Recommend** risk management strategies for RBF in light of the proposed changes to its competitive strategy.

(Total: 80 marks)

Allocation of marks	
Executive summary	04
Introduction	02
Strategy analysis, formulation and evaluation - (a), (d), (f)	36
Offer price of acquisition (e)	14
Corporate governance, HR and supply chain management strategies and risk management strategies (b), (c), (g), (h)	20
Recommendation and conclusion	04
Total	80