THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

SUGGESTED SOLUTIONS

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KB5 – Business Value Creation

June 2019

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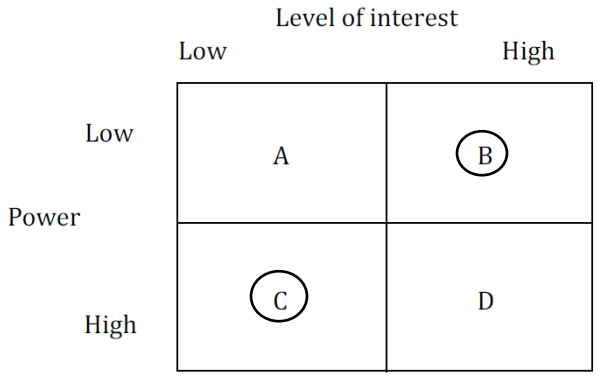
SECTION 1

Answer 01

Relevant learning outcome/s: 1.3 Stakeholders
Study text reference: Pages 18 – 20

(a) **Stakeholder mapping**



Segment D
Key players are found in Segment D. They have a high level of interest in what the organisation does and a high level of influence or power. Ajith and Melani, as owners, are in this group since they take a lot of decisions on behalf of the organisation. The major customers of the organisation also fall here. Even major suppliers and employee teams like R&D and senior management can fall in this segment.

Segment C
Stakeholders in Segment C have a low level of interest in the organisation but a large amount of influence and power, should they ever wish to use it. The government and related institutions (in this case the Central Environmental Authority as it is a manufacturing organisation), local residents, environmental groups can fall under here. As employees are a very significant part of A&M, candidates can list those important employees here too.

Segment B
Stakeholders in Segment B do not have great ability to influence strategy, although their level of interest is high. Their views may be important in influencing more powerful stakeholders, perhaps by lobbying. Both local employees and those from outside the community can belong here.

Segment A
Stakeholders in Segment A have a low level of interest in the organisation and a low amount of influence. People who are living out of the immediate community can be listed here.

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(b) **Segment D**

Key players are found in this group. Therefore owners should take the views of these key stakeholders into very careful consideration when making decisions.

Segment C

Stakeholders in this segment must be treated with care. There is a risk that they might move to Segment D. They should therefore be kept satisfied.

Segment B

They should be kept informed. Most of the employees of A&M may fall into this segment.

Segment A

The management does not have to give much (or even any) consideration to stakeholders in this group.

(Total: 10 marks)

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Answer 02

Relevant learning outcome/s: 2.4 Supply chain information systems
Study text reference: Pages 54, 56, 57 and 58

(a)

The Intranet is an internal IT network with a link to the Internet for system users.

- The Intranet can be used by all the outlets of Lak Sahana to place orders for items internally. For example, purchase requisitions may be submitted electronically to the central warehouse.
- When each outlet identifies that products are at the re-order level, they can easily place orders on the Intranet. At the same time if the products are not available in their outlet they can direct the customers to visit another outlet to get that product by looking at the stock availability in that outlet.
- When there is centralised access to information it saves time and helps to make decisions quickly.
- External suppliers may be given access to Lak Sahana's Intranet, via the Internet. They may then be allowed to monitor the re-order schedules, which can help them anticipate future orders. Further, if Lak Sahana has access to the suppliers' Intranets, they can send their order requests electronically to the suppliers too.
- The Intranet can be used as a knowledge sharing platform. Since Lak Sahana has a large number of outlets island-wide, communication and knowledge sharing can be done within a few seconds between everyone.

(b)

E-procurement is a general term for the purchase of supplies and services through the Internet and other information and networking systems, such as electronic data interchange (EDI).

Benefits of e-procurement

- Cost reduction – might include process efficiencies, reduction in the actual cost of goods and services, and reduced purchasing agent overheads.
- Reduced inventory levels – because orders are cheaper to place and process, organisations can afford to place orders more frequently, and can therefore hold lower levels of inventory.
- Control – the ability to control inventory more effectively.
- Greater financial transparency and accountability over the procurement process. Staff will be able to concentrate on their prime functions.
- Wider choice of suppliers – in theory, resources can be sourced from suppliers anywhere in the world, perhaps at much lower prices than could be obtained if an organisation only considered local suppliers. In this respect, one of the key stages in e-procurement is e-sourcing (using electronic methods to find new suppliers and establish contact with them).

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- Quicker ordering – a second key stage of e-procurement is e-purchasing, which covers product selection and ordering. E-purchasing allows organisations to select standard items from electronic catalogues and then automatically send electronic purchase orders to the suppliers via an Extranet.

(Total: 10 marks)

Answer 03

Relevant learning outcome/s: 3.4 Project management
Study text reference: Pages 92 and 93

(a)

- Outline planning – set up a project committee of managers. The committee will make the decision whether or not to go ahead with the project.
- Detailed planning – break down of work, structuring, budgeting, resource requirement and network analysis.
- Obtain necessary resources – resource requirements unforeseen at the planning stage will have to be authorised separately by the project board.
- Team building – build cohesion and team spirit in the project team.
- Communication – keep all stakeholders suitably informed and ensure that members of the project team are properly briefed.
- Coordinating project activities – coordinating activities between the project team, external suppliers, the project owner and end user.
- Monitoring and control – monitor progress against the plan and take corrective action.
- Problem resolution – resolve problems.
- Quality control – understand and manage quality procedures, agree and manage any appropriate trade-offs of functionality against achieving deadlines.

(b)

A project will be successful if it is completed on time, within budget and achieves its intended outcome. The project agreed price is USD 2,000,000 and the time duration is 5 years. Waruna has identified that they will not be able to meet the required targets, as agreed initially. Therefore he can do the following activities.

- Get approval from the project committee for more time to complete the project and an additional spending allowance to pay for overruns on time.
- Obtain extra resources, even though this will add to the project cost.
- Reduce the scope of the project so that it can be completed more quickly.
- Outsource some of the work to a third party (subcontract).
- Work overtime.
- Reduce some of the non-value added items.

(Total: 10 marks)

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Answer 04

Relevant learning outcome/s: 6.3 E-business
Study text reference: Page 285

(a)

E-commerce business models in B2C platforms take different forms. Businesses that consider moving into e-commerce need to consider the model that they will use, the market that they will target, the potential for profit, and whether they have any competitive advantage that will enable them to succeed

In the scenario, Apeksha and her colleagues are introducing an innovative e-learning site. As they plan to use the subscription model, target users can pay for access to the Danuma website, which contains high value-added customised content targeting the A/L, university and professional examinations. Students can pay an annual subscription or a quarterly subscription, and this will make sure they pay for the value-added information they obtain. As such, the subscription model is the best e-commerce business model to use in this scenario.

(b)

- **Value proposition:** How will the e-commerce arrangement (i.e. Danuma e-learning site) provide value for customers?
- **Revenue:** How will the business generate revenue?
- **Market opportunity:** The company should consider the market and its segmentation. What are the commercial opportunities that exist in this market? What is the potential size of the market? Apeksha has to take a closer look at the student population and its growth and who can access the site by paying a subscription.
- **Competitive environment:** How many competitors are already operating in the market with a similar business model?
- **Competitive advantage:** What can the business offer to its customers, which competitors cannot? Or in other words how can the Danuma site be differentiated from other competitors?
- **Market strategy:** How does the company intend to enter the market and attract customers?
- **Organisation of operations:** How will the company organise the work to deliver the service? What changes are needed to the operational procedures?
- **Management team:** Who will be responsible for managing the operations?

(Total: 10 marks)

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Answer 05

(a)

Relevant learning outcome/s: 5.8 Leadership
Study text reference: Pages 257, 258 and 260

Per the Ashridge Management College model there are four different management styles.

Tells (autocratic)
The 'tells' style of leader is a leader who makes all of the decisions and issues instructions that must be obeyed without question. Quick decisions can be made when speed is required, but this leadership style does not encourage initiative and commitment from subordinates.

Sells (persuasive)
The 'sells' style of leader still makes all the decisions, but believes that subordinates have to be motivated to accept them and carry them out properly. Employees are made aware of the reasons for the decisions, although they may not accept the decisions. The leader 'sells' his/her decision to the subordinates.

Consults
This is where the leader consults with subordinates and takes their views into account. However, the leader has the final say in decision-making. This encourages motivation and employees can contribute their knowledge, but it may take much longer to reach decisions.

Joins (democratic)
The 'joins' style is where the leader and followers reach decisions by consensus (agreement). This can provide high motivation and commitment from employees, but decision-making might become a very long process.

Saman's management style is more like "consults". The scenario gives evidence of Saman consulting with his subordinates (he scored above average in the competency 'inspires and motivates subordinates to share ideas') but he also has a final say in decision-making (per the survey, some subordinates felt that irrespective of their ideas, Saman has the final say in decision-making).

(b)

Transformational leaders are the leaders who see a need for strategic change, and lead the organisation through the change. They are capable of 'transforming' organisations, individuals and groups.

Transactional leaders are the leaders who are more concerned with dealing with operational and transactional problems in the business.

(Total: 10 marks)

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SECTION 2

Answer 06

Relevant learning outcome/s: 4.2, 4.4, 4.8 and 4.9 4.2. Segmentation, targeting and positioning 4.4 Pricing strategies 4.8 Service marketing 4.9 Customer relationship management
Study text reference: Pages 116, 117, 126 – 148, 163 – 166 and 168

(a)

Candidates should provide a brief discussion of the 7Ps using examples from the scenario wherever possible.

- **Product**: In this case the product is the car-sharing service, where the company provides the core benefit of convenient transportation for customers. This comes with a number of supplementary services.

- **Price**: Per the scenario, customers pay an annual fee based on their consumption.

- **Place**: Company website, online/mobile app, location, and the car itself act as the place.

- **Promotion**: The scenario does not provide specific answers for promotion (therefore a general answer was expected from candidates). For instance ASP could use billboards, social media based advertisements, roadshows, automobile events, the car itself, kiosks, word of mouth etc.

- **People:** In this scenario people mean both customers and employees. With regard to customers it includes their positive role i.e. punctuality, sympathy for others etc. With regard to employees it includes them offering information for registrations, routing, and their responses to inquiries in person, on the telephone, online or on the app. Word of mouth is also included under this P.

- **Process**: In this scenario the process includes both customers and employees, and the time to take the car from one location. More specifically, process includes the flow chart of activities, the process of reserving a car and obtaining it, payment services etc.

- **Physical evidence**: The car itself, the company location (interior and exterior), dress code of employees, the keys, and any other written document used to facilitate customers. Further, the virtual facilities and the outlook of the website and mobile app fall under physical evidence. The scenario also mentions a networked front office, fully-fledged mechanical servicing and valet servicing onsite. These too come under physical evidence.

(b)

CRM is concerned with developing a strong relationship with the customer and building customer loyalty. When developing and managing a successful (CRM) strategy the following factors should be considered.

- Get to know the customer (preferably individually) and improve and add to this knowledge over time.

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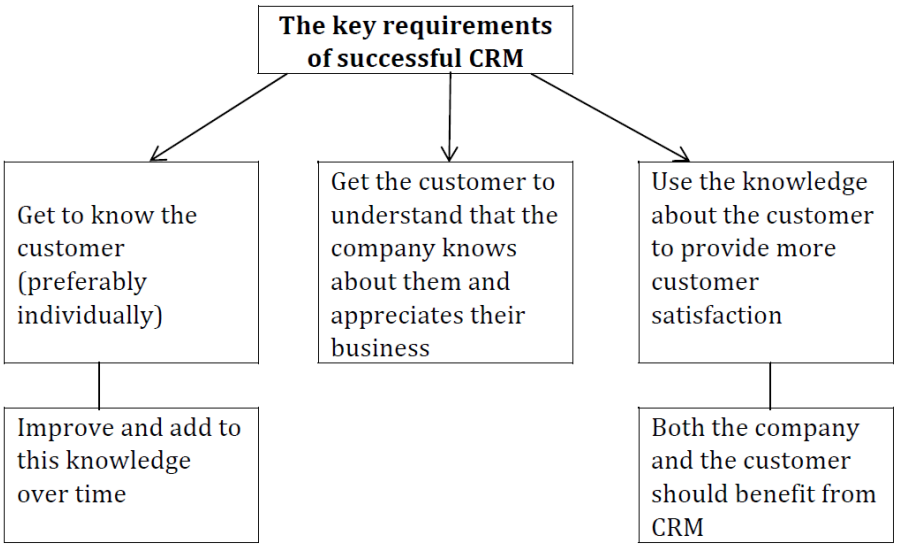
- Get the customer to understand that the company knows about them and appreciates their business.
- Use the knowledge about the customer to provide more customer satisfaction. Both the company and the customer should benefit from CRM.



(c)

The choice of pricing strategy will often depend on the conditions in the market.

- **Demand-based strategies** – with these strategies the company is aware that the volume of sales demand will vary according to the selling price and that the sales demand will fall if the price is set at a higher level. Demand-based pricing strategies recognise the relationship between price and demand and the selected price is one that seeks to achieve an optimum balance between them (possibly a profit-maximising price).

  For innovative products that are introduced to a market, a company may select one of the following demand-based strategies.

  - Market penetration pricing strategy – this is where a company sets the price of the product low, so that a large number of customers will buy it, thereby creating a large market for the new product quickly.
  - Price skimming strategy – this is where a company charges a very high price for the product. Only a few customers may buy it, but until competitors introduce rival products, customers have to pay the high price. Although the sales volume will be low, profit margins should be high.

- **Competitor-based pricing strategy** – in this pricing strategy a company sets prices at a level similar to those charged by competitors.

- **Cost plus pricing** – the company charges a price for its products or services at a mark-up above full cost, to ensure that it makes a profit.

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- **Price discrimination** – a company sells the same product to customers in different markets at different prices in order to maximise revenue. This is a particularly useful strategy when most of the costs are fixed costs, so that maximising revenue will also maximise profits.

- **Product mix pricing** – a company sells a branded product line where all the products in the range are priced consistently in order to promote the image and position of the brand. If the brand has high quality and a high price image, all products in the range should be given a high price.

It is recommended that ASP adopts a **price skimming strategy** under the demand-based pricing strategy for its car-sharing service. This is a new concept introduced by the company, for the first time in the market, for high-end customers who are tech savvy. It operates only in Colombo, and has allocated only 20 of its cars to this new service line at the moment. The number of cars available is less than the demand for such vehicles. Therefore the company can charge a high price for the service it provides

(Total: 25 marks)

Answer 07

(a)

Relevant learning outcome/s: 5.4, 5.5, 7.4 and 7.6 5.4 Performance management 5.5 Human resource development 7.4 Formulation of business level strategy 7.6 Evaluation and implementation of business level strategy
Study text reference: Pages 339, 340 and 341 ,215,216, 232-234

Porter suggested that there are three generic strategies to achieve a competitive advantage, and to be successful a company must choose only one of these strategies.

Cost leadership – this strategy seeks to achieve the position of the lowest cost producer in the industry as a whole.

Differentiation – this assumes that a competitive advantage can be gained through the particular characteristics of a firm's products or processes.

Focus – with a focus strategy a company focuses on being a cost leader or achieving differentiation in a particular target segment or market niche.

According to the given scenario we can recommend Veerya to follow a differentiation strategy as it expects to improve the quality of the product and differentiate it from others. At the same time it expects to build its brand image and enhance customer perception by using heavy advertising. Since the Veerya brand holds third place in the market and is new to producing this grain-based product, it is difficult for them to follow a cost leadership strategy.

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(b)

Since the recommendation was for a differentiation strategy to be adopted, the strategy needs to be evaluated using the criteria suitability, acceptability and feasibility.

Suitability – first an assessment needs to be made on whether this strategy is suitable to be implemented. If not suitable, it should not be implemented. Suitability refers to the logic of the strategy and how it fits with the organisation's objectives, resources, competences, strengths, weaknesses, opportunities and threats (e.g. objectives → will the strategy help to achieve the objectives of the organisation, its mission etc.).

Acceptability – this relates to the expectations of the organisation's stakeholders (shareholders, customers, management, staff, government and regulations, general public). A strategy is not acceptable if it is opposed strongly by one or more powerful/influential stakeholders. (e.g. shareholders will have an expectation about the returns they will receive on their investment

in terms of profitability, share price etc.

how will the strategy affect the value that customers receive?

Feasibility – a strategy must be feasible. It must be practicable and capable of implementation. Under feasibility you need to consider whether the organisation has the cash to pay for the strategy, whether it has the resources to implement the strategy, and whether it has the ability, skills, and experience to implement the strategy successfully. Feasibility also considers whether the organisation will be able to deal with any responses to the strategy by major competitors, and whether there will be enough time to implement the strategy.

(c)

A systematic approach to the performance management process of Veerya (to be adopted by Happy-House) may include the following steps.

Identify requirements and competences
Identify the requirements and competences required to perform the job or task.

Performance agreement
Draw up a performance agreement defining the expectations of the individual or team, standards of performance required, indicators for measuring performance and the skills and competences people need for the work.

Performance and development plan
Draw up a performance and development plan with the individual. This specifies the actions needed to improve performance, normally covering development in the current job. Typically it will include details of what the individual and manager agree is needed to enhance performance, and details of development and training initiatives to be taken.

Manage performance continually throughout the year
Managers should review the individual's performance regularly, but informally, throughout the year. Any problems should be discussed, and a way of resolving them agreed.

Annual formal performance appraisal
At a defined time each year, actual performance should be assessed against targets or expectations. Having discussed achievements in the year just ended, the interview should go on to discuss the future.

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(d)

Measuring ROI involves several issues to consider from the company's point of view.

Identifying the type of data required
How should the return from training be measured? What types of benefits should be measured?

Principles for collecting and analysing data
Having decided the type of data that should be measured, the next issue is to decide on the ground rules for collecting and analysing the data. Where should the data come from? What method should be used to analyse the data?

How will the process of collecting the data and evaluating it work in practice?
- What are the sources of data and how will it be collected?
- Who will carry out the task?
- What procedures will be used to collect the data?
- Techniques include surveys and questionnaires, workplace observations, interviews, focus groups, assignments, performance monitoring and (possibly) collecting financial data.

Measurements
Measurements will be recorded on a scorecard for various aspects of return and cost. There need to be methods of measuring or scoring items of soft data, such as the effect of the training on work habits and attitudes.

Timing of the evaluation
- When will the data be collected?
- Should it be collected during the training programme or at a time after it has ended, or both?
- When the benefits of a training programme are measured in terms of the effect that it has had on employee productivity or behaviour, for how long should the post-course measurements continue? (Weeks? Months? Longer?)

(Total: 25 marks)

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