

CA



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

SUGGESTED SOLUTIONS

14304 – Strategic Management Process

CA Professional (Strategic Level I) Examination
December 2012

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Answer No. 01

a) Strengths

- ✓ A variety of innovated product range
- ✓ Uniqueness of the products which deeply ingrained in tradition, culture and superior taste quality
- ✓ Knowledge and experience in value added tea industry over more than two decades
- ✓ Highly expertise R& D team
- ✓ Innovative culture
- ✓ Immense leadership of Mr. Dheshapriya
- ✓ Wide range of International presence (over more than 48 countries)
- ✓ Already entered and established in Chinese Market (with a strong partner having local knowledge)
- ✓ A recent successful IPO- having adequate funds for future expansion

b) Core Competencies and Distinctive Capabilities

- (i) Core competencies are those capabilities that are critical to a business achieving competitive advantage. The central idea of core competencies is that over time companies may develop key areas of expertise which are distinctive to that company and critical to the company's long term growth. Core Competencies are not seen as being fixed. Core Competencies should change in response to changes in the company's environment. They are flexible and evolve over time. As a business evolves and adapts to new circumstances and opportunities, so its Core Competencies will have to adapt and change

Distinctive capabilities are the special and unique capabilities that distinguish the organization from its competitors. (or can be explained as a distinctive competency – is something a firm does well in comparison to its competitors. Same meaning). Distinctive capabilities allow the organization to develop a sustainable competitive advantage and outperform its competitors.

- (ii) Distinctive capabilities have three characteristics.
- i. Contributes to superior customer value and offers real benefits to customers
 - ii. Difficult for competitors to imitate
 - iii. All the organization to use the capability in variety of ways.

Given the information in the case-LHA, a main distinctive capability of LHA is the - **ability to conceptualize and manufacture newer product ranges under Lakdiv Brand with highest quality and superior to competitors by using the innovative and expertise R& D Team.** The new concept of infinity Tea cafes and new products such as **Lakdiv Ice Tea, *Cosmetic Mask with Green Tea Extract, Green Tea Body Gel and Lakdiv Green Tea Mouth Wash etc*** have been conceptualized and manufactured as a result of the LHA's ability to innovate. This ability of innovation contributes to superior customer value and offers real benefits to customers.

Also it is difficult for competitors to imitate as the LHA has fully dedicated expertise R& D team. Further, the LHA use this ability in variety of ways to gain sustainable competitive advantages. The dedicated R& D team working in Lakdiv Concept Centre would from time to time conceptualize new products, new service offering and new ways of capturing markets by using tea as the base raw material. This would ultimately help the LHA to sustain in the industry in future while capitalizing new opportunities in globe.

- c) The value discipline model of M.T & F.W describes three generic value disciplines. Any company must choose one of these value disciplines and act upon it consistently and vigorously, where it aims to be the best- in the world preferably. This does not mean the other two dimensions should be completely neglected, but rather company should at least excel in other two at acceptable level according to the industry standards.
01. Operational Excellence
Superb operations and execution often by providing a reasonable quality at a very low price. The focus is on efficiency, streamlining operations, supply chain management, no frills, volume counts. Most large international operations are working out of this discipline.
 02. Product leadership
Very strong in innovation and brand marketing, operating in dynamic markets. The focus is on development in innovation, design and time to market, high margin in a short time frame.
 03. Customer Intimacy
Excel in customer attention and customer service. Tailor their products and services to individual or almost individual customers. Main focus is on Customer Relationship management.

Given the information in the case, we can conclude that LHA has been following Product Leadership discipline to compete in the market. For this purpose, LHA:

- ✓ Has built up a strong brand image (e.g. Lakdiv)
- ✓ Provides the product special features to make the company stand out from its competitors (e.g. Ice tea, cosmetic products by using green tea as a raw material)
- ✓ Provide unique or superior value though product quality and innovation. (infinity cafés concept)
- ✓ Establishing and operating of highly innovative R& D team under Lakdiv Concept Centre

Answer No. 02

(a)

- Strategic decisions are taken by top management
- Strategic decisions are concerned with the long term direction of an organization and affect its future prosperity.
- Strategic decisions involve major resource commitments for a company.
- Strategic decisions have organization-wide implications and affect operational decisions.
- Strategic decisions involve matching an organization's activities to its environment.
- Strategic decisions involve leveraging an organization's resources to exploit environmental opportunities
- Strategic decisions are influenced by the values and expectations of those who have power in the organization

(b) Examples of decisions taken by top management

- Mergers & Acquisition decisions
- Entry into the international market
- Major investment decisions
- Share issues and declaration of dividends

Examples of decisions taken by a marketing manager

- Pricing of products
- Organize the distribution channel
- Organize an advertising/promotional campaign

(c) A good company mission statement should meet the following requirements.

- What is the purpose or reason why a company exists – i.e. the customer group to be satisfied
- What is the business? The products/services that will be offered.
- How does it intend to deliver the service i.e. the technology.
- Stakeholder groups that are addressed i.e. in addition to customers, it should consider shareholders, employees, suppliers, the government and the wider society.
- Philosophy/values statement: concern for environment

- (d) **Market segmentation** is the process of classifying customers into groups which share common characteristics and responding in a particular way to a market offering.
- (e) **Interest Rate** refers to the cost of borrowed funds. The cost of borrowing money from a bank/financial institution raises the cost of production and affects the cash flow of a business. How much customers can afford to spend is also relevant because an increase in interest rates affects people's mortgage payments. It is an environmental threat under the economic component of PESTEL in the company's strategic analysis.

Inflation refers to a continuous increase in the average price level. Rising wages and rising cost of materials contribute to inflation in the economy. This would result in an increase in the firm's cost of production. This is an environmental threat under the economic component of PESTEL in the company's strategic analysis.

NOT FOR SALE

Answer No. 03

(a) **Firm (i) (Cost leader)**

- Process engineering skills.
- Products designed for ease of manufacture.
- Continuous investments in technology to reduce costs and enhance productivity.
- Intense supervision of labour.
- Low- cost distribution system

Firm (ii) (Broad differentiator)

- Product engineering skills.
- Creative & innovative capabilities.
- Research capabilities.
- Marketing skills.
- Advertising & promotion skills.
- Corporate reputation for quality/technological leadership.

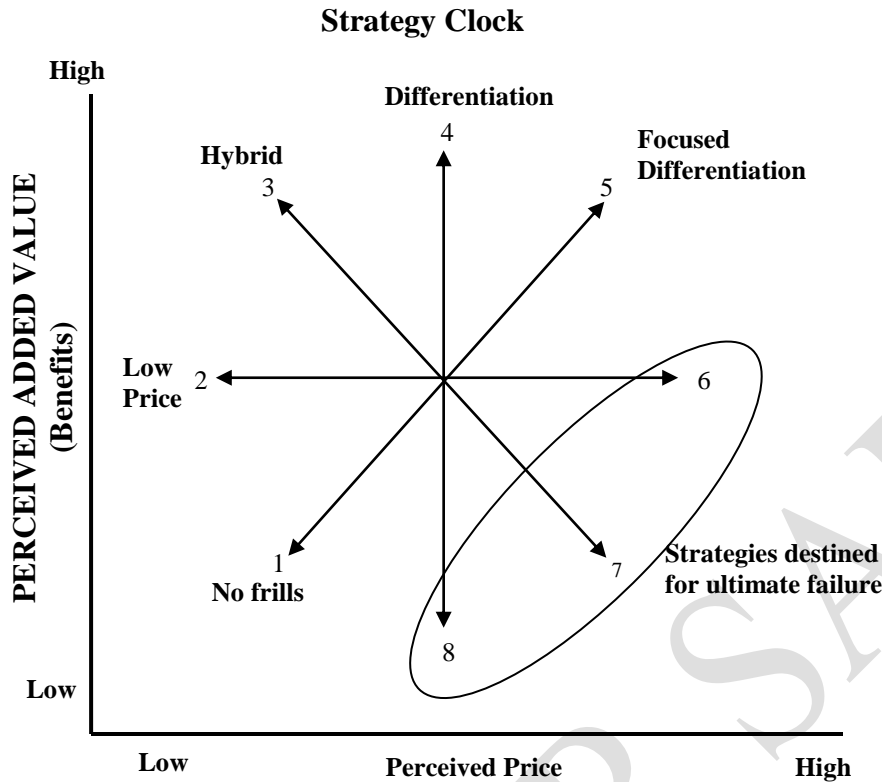
(b) The concept of the strategy clock (Johnson & Scholes, 1993) incorporates several price-based and differentiation based strategies. The strategy clock has 2 price-based strategies and 3 differentiation strategies. Strategies 1 & 2 are price-based strategies.

(i) A no frill strategy is aimed at being most price-conscious and can only succeed if this segment of the market is sufficiently large. This strategy may be used for market entry, to gain experience and build volume. This was done by Japanese car manufacturers in the 1960s. (Low price, Low added value).

(ii) A low price strategy offers better value than competitors. This can lead to price war and reduced margins for all. Porter's generic strategy of cost leadership is appropriate to a firm adopting this strategy.

Strategies 3,4 and 5 are all differentiation strategies. Each one represents a different trade-off between market share (with its cost advantages) and margin (with its direct impact on profit). Differentiation can be created in three ways.

- Product features
- Marketing, including powerful brand promotion
- Core competences



Porter's Framework contained 3 generic strategies viz. Cost leadership, Differentiation and Focus. Porter's generic strategies are expanded in the strategic clock. The strategy clock recognizes the possibility of implementing several strategies including a hybrid strategy. Strategies 1 to 5 are considered viable strategies while strategies 6,7,& 8 are destined for ultimate failure.

- (c) A hybrid strategy seeks both differentiation and a lower price than competitors. The cost base must be low enough to permit reduced prices & re-investment to maintain differentiation. The company must be able to incorporate attractive or upscale attributes at a lower cost than rivals.

Answer No. 04

- (a) **Strategic Control** is the process of establishing the appropriate types of control systems at the corporate, business & functional levels. These enable managers to evaluate whether a company is achieving superior efficiency, quality, innovation and customer responsiveness and implementing its strategy successfully.

Are we moving in the right direction? Are key things falling into place? Are our assumptions about major trends and changes correct? What are the critical things that need to be done? Do we need to adjust or abort this strategy?

Operational Control systems: They guide, monitor and evaluate the progress in meeting the company's annual objectives.

- (b) **Feed-forward controls** - (or pre-controls) are set up before a work activity begins. They ensure that objectives are clear, proper directions are established and the right resources are available to accomplish them. Feed-forward controls are preventive in nature.

Concurrent control – It takes place while an activity is in progress. It involves the regulation of ongoing activities and is designed to ensure that employee work activities produce the correct results.

Feedback controls - (post-action controls), take place after the work is completed. They focus on the quality of and results rather than on inputs and activities.

- (c) **Simons' four levers of control.**

According to Simons (1995), organizations have 4 controls systems available to them at the strategic level viz.

- **Belief systems** – These are the fundamental or core values of the organization. Senior managers communicate and reinforce these values frequently to provide direction for the organization. Examples in this category include vision and mission statements.
- **Boundary systems** – These define the limits of freedom, such as codes of conduct and a code of ethics. They set constraints in terms of employee behaviour.
- **Diagnostic systems** – These refer to the traditional view of the control system as a vehicle for strategy implementation. They are used to monitor organizational outputs and compare them to the pre-set standards, in order to correct possible deviations and keep the intended strategy on track. Diagnostic control systems can be both financial and non-financial by nature. Examples are budgets, balanced scorecards and project monitoring systems.
- **Interactive systems** – This focuses on communicating and implementing the organization's strategy. They provide strategic feedback and the means to update and redirect strategy such as competitor analysis and market feedback reports. They focus on the need for innovation and creativity.

- (d) A set of inter-connected components that operate in harmony, according to certain predeterminal requirements, to achieve some specific objectives.

Answer No. 05

- (a) (i) *
- * An activity can be performed at a lower cost by the outside specialist
 - * A better quality product/service can be supplied by the outside specialist
 - * The activity is not crucial to the firm's ability to achieve sustainable competitive advantage
 - * It allows a firm to focus on strengthening its core competencies
 - * It improves a firm's ability to innovate
 - * It reduces the firm's risk exposure to changing customer preferences &/or technology
 - * It allows a firm to assemble diverse kinds of expertise speedily & efficiently
 - * It streamlines company operations in ways that cut the time it takes to get new products to the market, lower internal coordination costs or improve company flexibility.
- (ii) Policy refers to specific guidelines, procedures and rules that are formulated to encourage work towards stated organizational goals. Policies set boundaries and constraints on behaviour and clarify what can and cannot be done in pursuit of organization's goals.

Benefits

- Policies & procedures are instruments for strategy implementation. They provide top-down guidelines about how certain things need to be done. They place limits on independent actions and align the actions and behaviour of employees in the direction of achieving an organization's goals.
- Policies enforce consistency in how strategy-critical activities are performed in geographically dispersed organization units.
- Policies promote the creation of an appropriate work culture that facilitates strategy implementation.

(b)

The McKinsey 7 – S Model provides a framework that helps in implementing strategy.

The model consists of 7 elements viz. Shared values, Strategy, Structure, Systems, Staff, Skills & Style.

The McKinsey 7-S model contains “hard” & “Soft” elements. The hard elements are Strategy, Structure & Systems. The soft elements are Shared values, Staff, Skills & Style.

The **‘hard’ elements** are easily quantified or defined. They deal with facts and rules.

The '**Soft**' elements are also important for organisational success although they are not quantifiable. For example, shared values prescribe what is ethical vs. unethical, acceptable vs. unacceptable employee behaviour.

Strategy – It is the means of securing competitive advantage, which would enable the Co: to achieve its corporate goals

Structure –It follows strategy and facilitates the achievement of corporate goals.

Systems – Refer to control system, reward system, IT system etc. which support strategy.

Shared values – What are the values, beliefs & norms that guide employee behaviour? These would include commitment to quality, innovation and concern for the environment. In implementing strategy due regard must be given to safeguarding such values.

Staff – selecting the right persons to undertake the activities in the organization.

Skills – What are the skills that employees should possess or develop in order to accomplish the company goals?

Style – Is it desirable to have a directive style or a participatory style of leadership?



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