

FINAL EXAMINATION

December 2014

P-17(SPM)

Syllabus 2012

Strategic Performance Management

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

*This question paper has been divided into 3 parts viz., Section-A (60 marks),
Section-B (20 marks) and Section-C (20 marks).*

Please note:

- From *Section-A: Performance Management*, you are to answer question No. 1, which is *Compulsory*, carrying 20 marks. Further answer *any two* questions from the rest of the questions in this section, each carrying 20 marks.
- From *Section-B: IT & Econometric tool in Performance Management*, you are to answer *any two* questions, each carrying 10 marks.
- From *Section-C: Enterprise Risk Management*, you are to answer *any two* questions, each carrying 10 marks.

SECTION-A (60 Marks)

Performance Management

*Question No. 1, which is compulsory, carrying 20 marks.
Further answer any two questions from the rest of the questions
in this section, each carrying 20 marks.*

1. The Moon glow Electronics Company is a rapidly growing manufacturer of sophisticated electronic equipment for industrial applications. Despite the intense competition of the industry, Moon glow has grown to over ₹ 500 crores per year in Sales.

Still the Moon glow Financial Management felt that there was a lack of commitment by the line management. There was a typical command and control orientation. The prices of the products were usually above what they had projected by more than 10%. There were distinct deficiencies with the company's current cost management. There was an inadequate concern for the cost management and cost reduction. The Company's growth was sluggish. It was concluded that a significant change in the mind set would have to be made.

The management further observed that in the company, the cost management during the design stage was not a priority. Rather most attention to cost issues occurred after the products had reached production.

The Moon glow management had read a lot about the Japanese management practices like TQM, JIT, Cost management etc., and about the Japanese finance and accounting practices. The management concluded that Moon glow Electronics could apply many of the Japanese financial and accounting practices.

The CEO of the company wrote in the company's annual report that the company's financial executives will need to institute a Target Costing programme to formalize the company's cost reduction efforts.

You are required to:

- (i) Define the term 'Target Costing' and its key principles.
- (ii) State the problems that are being faced by the company.
- (iii) What remedial steps are to be taken by the company to solve its problems?

5+5+10=20

Please Turn Over

2. The ripple effects of the 2012 Global Economic meltdown had begun to hurt the ₹ 1,268 crore M. K. Paper Limited. Like all other business houses in India, M. K. Paper Ltd. was also finding the going tough. The general trend of soaring prices and contraction in demand had started affecting the sale of M. K. Paper Ltd. products also. Its customers were focusing on correcting their inventory positions (using existing stocks of materials to keep production lines and marketing activities rolling). Consequently, they were not buying much from M. K. Paper Ltd. Even the investors did not like what they saw—M. K. Paper Ltd. stock fell from ₹ 57.20 on 1 January, 2012 to a low of ₹ 14.12 on 12 March, 2013. The company was in the midst of Economic crisis. Mr. Sondhi, the Managing Director of the Company, realized that some strong measures must be taken to extricate the company from its present crisis. To this end, Mr. Sondhi held several brainstorming sessions with the top management team and finally identified the focus areas:

- Managing working capital flows, cutting costs and paying attention to employee productivity.
- Moving away from the traditional approach one usually follows during the recessionary periods.

Mr. Sondhi instead of shutting down company's plants and cutting production, decided to continue to operate the Company's two plants at Gujarat and Odisha at 100% capacity. To match sales with production, he planned to reach out to newer customers by widening Company's distribution network. He identified packaging boards to be marketed in rural areas where the meltdown had minimal effect. As the market conditions were still difficult, the company also decided to cut the prices by 2 to 3 per cent. Along with the price cut, its marketing thrust in rural areas ensured that the sales were not impacted much. Net sales remained flat throughout 2012-13, though the profitability of the Company suffered because of the lower margins it received from its rural thrust. For raising capital, the Company did not approach banks and investors, rather it intensified its efforts to recover its debts from its clients. The efforts resulted in fast recovery of crores of rupees. Disputed debts were also settled expeditiously to raise more cash. To cut costs further, the Company took steps to improve productivity and reduce its wage bill. Inefficient employees were asked to leave. No new appointments were made unless they were critically important. In addition, employees received lower increments for 2012-13; Even Mr. Sondhi did not take any increment.

When the global slowdown sent the international prices of the pulp, the main raw material for the Paper industry, crashing from ₹ 36,960 per tonne in April, 2012 to ₹ 18,240 per tonne in September, 2012 the company bought enough pulp to last for about 9 months as against its policy of buying, in the normal course, pulp for about 2-3 months. According to Mr. Sondhi, this decision also resulted in a huge saving. Mr. Sondhi and his senior management team also re-evaluated the organizational structure to improve efficiency in the organization. When all the above strategic decisions had been successfully implemented, Mr. Sondhi knew that the worst for the company was over. This was also reflected in gradual increase in the quarterly profits of the company, Mr. Sondhi however sounded very modest about his stewardship of the Company while appreciating his senior management team for the great job done to ride out the slowdown.

Answer the following questions:

4×5=20

- (a) Where did the recession hit M. K. Paper Ltd.?
- (b) Explain with reasoning the corporate strategy the Company had adopted for its survival.
- (c) What functional strategies were undertaken by the Company to overcome its crisis?
- (d) State the basic responsibilities of a strategic leader in a business house. Explain whether or not Mr. Sondhi provided strategic leadership to the Company.
- (e) What lessons are learnt from the experience of M. K. Paper Ltd. to ride out the economic meltdown?

3. (a) List the steps of Business Process Re-Engineering. 6
 (b) Discuss the benefits of Branding. 6
 (c) XYZ Ltd., provides the following details on its new product:

Years 1 & 2: R&D Costs: ₹ 2,40,000; Design Costs ₹ 1,60,000

Years 3 to 6: Other functional Costs:

Function	One-time Costs (₹)	Cost per unit (₹)
Production	1,00,000	25
Marketing	70,000	24
Distribution	50,000	16
Customer Service	80,000	30

The Sale quantities during the Product Life Cycle at various Selling Prices are:

Selling Price per unit (₹)	400	480	600
Sale Quantity in units	5,000	4,000	2,500

Ignoring the time value of money and assuming that R&D costs and design costs represent total costs incurred in 2 years, compute the net incomes generated over the Product Life Cycle at various prices. Which price the company should select? 8

4. (a) A Finance Manager is considering drilling a well. In the past, only 70% of wells drilled were successful at 20 metres depth in that area. Moreover, on not finding of water at 20 metres, some persons in that area drilled it further up to 25 metres but only 20% struck water at that level. The prevailing cost of drilling is ₹ 500 per metre. The Finance Manager estimated that in case he does not get water in his own well, he will have to pay ₹ 15,000 to buy water from outside for the same period of getting water from the well.

The following decisions are considered:

- (i) Do not drill any well at all and buy water from outside;
 (ii) Drill up to 20 metres; and
 (iii) If no water is found at 20 metres, drill further up to 25 metres.

Draw an appropriate decision tree and determine the Finance Manager's optimal strategy.
 (2 marks for Decision Tree, 7 marks for the correct solution and 1 mark for the conclusion.) 10

- (b) Following information pertaining to four customers using the same products are available:

Sl. No.	Particulars	A	B	C	D
(a)	No. of units sold	60,000	80,000	1,00,000	70,000
(b)	Selling Price net (₹)	2	3	1	2
(c)	No. of Sales Visits	3	3	5	10
(d)	No. of Purchase Order	20	60	50	40
(e)	No. of deliveries	12	16	25	15
(f)	Kilometers per journey	20	35	10	50
(g)	No. of rush deliveries	—	3	1	2

Costs of each activity are as below (in ₹)

(h)	Sales Visit	2,100	Per visit
(i)	Order placing	600	Per order
(j)	Product handling	0.3	Per item
(k)	Normal delivery cost	20	Per kilometer
(l)	Rushed delivery cost	2,000	Per delivery

Ascertain the operating Profit/Net Revenue by each of the four customers? (2×4)+2 (for conclusion)=10

Please Turn Over

SECTION-B (20 Marks)

IT & Econometric tool in Performance Management

Answer any two questions, each carrying 10 marks.

5. (a) "Data Mining is a process of discovering various models, summaries and derived values from a given collection of data." Discuss it and state the problem of adoption of Data Mining Process. 4
(b) Define the following terms in the context of Supply Chain Management: 2×3=6
(i) Quality
(ii) Promotions
(iii) Strategic Alliance
6. (a) Explain the technical and operational factors of E-Commerce. 5
(b) What do you mean by "Software tools/Programming tools? Name some of the tasks that Software tools can do. 1+4
7. (a) What is "Spread Sheet"? What are the terms commonly used to refer to parts of the spread sheet? 2+3
(b) What do you understand by the term "Business Intelligence"? How you would choose the right business solution? 2+3

SECTION-C (20 Marks)

Enterprise Risk Management

Answer any two questions, each carrying 10 marks.

8. (a) "The important principle to consider in an efficient capital market would be that the investors should not hold all their eggs in one basket; they should hold a well diversified portfolio". Do you agree? If so, why? 1+4
(b) Discuss about the Risk Retention. Describe the guidelines that should be followed for retention of the Risk. 1+4
9. (a) Briefly describe about "Value at Risk". 5
(b) "Risk Management Process refers to the process of measuring or assessing risk and then developing Strategies to manage risk. In the risk management, the following steps are taken up to minimize the risk". Discuss the steps which are taken to minimize the risk. 5
10. (a) Mention the causes of Corporate Failure. Give their examples. 5
(b) Discuss the steps to be taken for preventing the Corporate Failures. 5
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