

## FINAL EXAMINATION

December 2015

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

*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.*

1. This Case Study explains why Nestle Inc. needs a first class Supply Chain, with high quality linkages from where the coffee is grown in the field, to the way in which it reaches the consumer. For Nestle's, the Supply Chain is a bit complex and includes:
  - Growers of Coffee
  - Intermediaries like dealers/brokers/roasters/retailers, etc., Some Intermediaries may buy Coffee and doing some of the primary processing.
  - Growing and processing of Coffee. This includes activities like coffee picking, drying and hulling, sorting, grading & picking.
  - Price-Balancing Supply and Demand: Coffee prices are determined on day-to-day basis on the world commodity markets in London and New York. The price of Coffee is determined by the relationship between the amount of Coffee available to be sold (Supply) and the amount which the company would like to buy (demand). If there is more Coffee available than what the company would desire to buy at current prices, the prices will fall. The market, thus, ultimately determines the price that the farmer receives.
  - Nestle's Trading Methods: Nestle is a pioneer in purchasing Coffee direct from growers. A growing % of the company's Coffee is bought direct from the producer and it is now one of the world's largest direct purchasers. In Countries, where this is not possible, Nestle operates in a way that takes it as close to the growers as possible.

**Please Turn Over**

- Buying from dealers: In countries like UK, it is impossible for Nestle to buy from the hundreds of thousands of farmers, who ultimately supply the Company and so the coffee is bought from dealers, using the international market.

**Conclusion:** Creating wonderful cups of Coffee is not only Nestle's business, it is the business of everyone involved in the Supply Chain. It is in everyone's interest-the farmers' and Nestle's-that farmers receive a fair income from their Coffee. This ensures that they will continue to grow Coffee and to invest in increasing their yield and quality and this in turn, guarantees the supply of quality Coffee, which companies like Nestle require.

In the context of the above case study, answer the following questions:

- (i) What is Supply Chain Management? Explain clearly its basic concept?
- (ii) What are the basic objectives of a Supply Chain?
- (iii) State the way Nestle Inc., manages its Supply Chain?

8+5+7=20

2. (a) Krish of India presently operates its plant at 80% of the normal capacity to manufacture a product only to meet the demand of Government of India under a rate contract. He supplies the product for ₹ 4,00,000 and earns a profit margin of 20% on sales realizations.

Direct Cost per unit is constant.

The indirect costs as per his budget projection are:

Indirect costs	20,000 units (80% capacity) ₹	22,500 units (90% capacity) ₹	25,000 units (100% capacity) ₹
Variable	80,000	90,000	1,00,000
Semi-Variable	40,000	42,500	45,000
Fixed	80,000	80,000	80,000

He received an export order for the product equal to 20% of its present operations. Additional packing charges on this order will be ₹ 1,000.

As a Management Accountant, Calculate the price to be quoted for the export order so as to give him a profit margin of 10% on the export price. 10

- (b) What is 'competitive intelligence'? Discuss the role of Management Accountant in competitive intelligence process? 3+7

3. (a) Timma Ltd., has the capacity of production of 80,000 units and presently sells 20,000 units at ₹ 50 each. The demand is sensitive to Selling Price and it has been observed that for every reduction of ₹10 in the Selling Price, the demand is doubled.

You are required to calculate:

- (i) What would be the Target Cost at full capacity, if Profit Margin of Sale is 10%?
- (ii) What should be the Cost Reduction Scheme, if at present 40% of Cost is Variable, with the same % of Profit?
- (iii) If the Rate of Return desired is 15%, what will be the maximum investment at full capacity? 2+3+3

- (b) State the different steps to be followed while implementing Economic Value Added (EVA) process. 6
- (c) State the different ways of improving EVA. 6

4. (a) Mr. X is trying to decide whether to travel to Sri Lanka from New Delhi to negotiate the sale of a shipment of China novelties. He holds the novelties stock and is fairly confident but by no means sure that if he makes the trip, he will sell the novelties at price that will give him a profit of ₹ 30,000. He puts the probability of obtaining the order at 0.6.

If he does not make the trip, he will certainly not get the order.

If the novelties are not sold in Sri Lanka, there is an Indian customer, who will certainly buy them at a price that leaves him with a profit of ₹ 15,000 and his offer will be open till Mr. X returns from Sri Lanka.

Mr. X estimates the expenses of trip to Sri Lanka at a fabulous offer of only ₹ 2,500. He is however, concerned that his absence, even for only three days, may lead to production inefficiencies in the factory. These could cause him to miss the deadline on another contract, with the consequence that a late penalty of ₹ 10,000 will be invoked. Mr. X assesses the probability of missing the deadline under the circumstances at 0.4.

Further, he believes that in his absence, there will be a lower standard of house-keeping in the factory and the raw material and labour costs on the other contract will rise by about ₹ 2,000 above the budgeted figure.

Draw an appropriate Decision-tree for Mr. X's problem and using EMV as the appropriate criterion for decision, find the appropriate initial decision. 10

- (b) Seema Ltd., has prepared the following budget for the year:

Levels of activity

	60% ₹	80% ₹
Raw materials	30,00,000	40,00,000
Direct wages	18,00,000	24,00,000
Factory overheads	32,00,000	36,00,000
Total	80,00,000	1,00,00,000

The policy of the company is to charge 25% on variable costs to cover profit. Raw material is in short supply and the company wants to utilize its available supply of raw materials in an optimum manner. Planned operating capacity is 80%.

The company has to execute a job, as per details given below:

Raw materials (₹)	40,000
Direct wages (₹)	30,000

You are required to quote the price of the job, in accordance with the policy of the company. 10

Please Turn Over

**SECTION-B (20 Marks)**

**IT & Econometric tool in Performance Management**

*Answer any two Questions, each carrying 10 marks.*

5. (a) What is 'Principal Component Analysis' (PCA)? Briefly explain? 5  
(b) After adopting Total Productivity Maintenance, What types of benefit will your organization get? 5
6. (a) What is meant by the term "Strategy Mapping"? 5  
(b) "The Malm Quist Index' (MI) is based on the concept of the production function. This is a function of maximum possible production, with respect to a set of inputs pertaining to capital and labour." -Discuss. 5
7. Define the following terms in the context of Supply Chain Management: 2×5=10  
(a) Activity Based Management  
(b) Capacity Management  
(c) Customer Relationship Management  
(d) Customer Value  
(e) Information Sharing

**SECTION-C (20 Marks)**

**Enterprise Risk Management**

*Answer any two Questions, each carrying 10 marks.*

8. "There are various Strategic Decisions for managing Risk." State these strategies and briefly explain each of them in three or four sentences. 10
9. "Just as diseases are identified by certain symptoms, Industrial Sickness too can be identified by certain symptoms." State the symptoms that act as indicators of Industrial Sickness. Suggest immediate remedial actions to mitigate Industrial Sickness. 10
10. Write short notes on: 2.5×4=10  
(a) Business Process Improvement  
(b) Different types of Corporate Risk  
(c) Risk Management Process  
(d) Risk Pooling
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