

# FINAL EXAMINATION

June 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&2, which are *Compulsory Questions*, each carrying 15 marks. Further answer any *three Questions* from the rest of the Questions in this section, each carrying 10 marks.
- From *Section-B: IT & Econometric tool in Performance Management*, you are to answer any *one Question*, carrying 20 marks.
- From *Section-C: Enterprise Risk Management*, you are to answer any *one Question*, carrying 20 marks.

### SECTION-A (60 Marks)

#### Performance Management

*Question No. 1&2 are compulsory, each carrying 15 marks.  
Further answer any three Questions from the rest in this  
section, each carrying 10 marks.*

1. M/s. XYZ Steel Plant is one of the most modern Steel plants in the country. The plant has a capacity of producing 3 Million tonnes of liquid steel and 2.65 Million tonnes of Saleable Steel. The main products of M/s. XYZ Steel Plant are Angles, Billets, Channels, Beams, Squares, Flats, Round Rebars and Wire Rods. The major units in M/s. XYZ Steel Plant are the Coke Ovens, Sinter Plant, Blast Furnace, Steel Melt Shop, Light and Medium Merchant Mill, Wire Rod Mill and Structural Mill.

The vision of M/s. XYZ Steel Plant is to become a 10 Million tonne World Class integrated Steel Plant by 2019-20. Its mission is to be a continuously growing company through technological upgradation, operational efficiency and expansion, producing steel at international standards of cost and quality, ensuring optimal return on investment to stakeholders and meeting the expectations of the customers. The core values of M/s. XYZ Steel Plant are firm commitment, customer satisfaction, continuous improvement and concern for environment.

Today, M/s. XYZ Steel Plant is moving forward with an aura of confidence with pride to enable the company to reach new heights in organizational excellence. But in the earlier days, the plant could not attain the envisaged capacity levels and financial viability. There were huge cost over-runs and high capital-related charges. High input costs, recession in steel industry, global competition, sluggish economy both in domestic as well as international market, economic crisis-world-wide, the production of steel had declined. M/s. XYZ Steel Plant was labelled as the 'sick child of the industry'. The company had no alternative but to report to BIFR (Board

**Please Turn Over**

for Industrial and Financial Reconstruction). Following this, the company was directed to formulate a 'turn-around' strategy for long-term financial viability of the plant. The capital Restructuring proposal of the company was rejected by the government.

The major step taken by the company was an aggressive treasury management. Rescheduling of high cost loans, obtaining softer interest loans from banks, securing cheaper lines of credit for import of raw materials, issue of non-cumulative preference shares, increasing the authorized share-capital, reduction on long-term loans, generation of wealth, made out of internal generation through various measures-were some of the steps taken to tide over this situation.

The plant had taken innovative steps to operate consistently beyond rated capacities in all the production units. Efficient operation management coupled with optimum waste utilization and improved techno-economic parameters, along with cost reduction measures have been the major contributing factors that led to the companies' turn-around.

With regard to the techno-economic front, during the period 1998-99 till date, the plant has made a significant improvement in the specific energy consumption, average converter life, rolling rate, total coke rate, and fuel consumption. Thrust was given for recycling of metallurgical waste. Initiatives taken to recycle the solid waste and utilizing them led to a saving of raw material consumption.

Another major strategy of the company that resulted in the turnaround of the company is various cost reduction measures taken in the plant production. Further, the company had laid emphasis on total involvement by workers' participation in management through suggestion schemes, which played a major role in the rapid growth of techno-economic parameter and the labour productivity.

Required:

- (a) Mention the principles of Business Process Re-engineering.
- (b) State the reasons for which M/s. XYZ Steel Plant faced challenges for implementing the Business Process Re-engineering.
- (c) What strategies are taken by M/s. XYZ Steel Plant for facing the challenge? 5+5+5

2. Tesco & Co. is the world's largest grocery company, dealing in different fast moving consumer goods (FMCG). Tesco's efforts towards offering better services to its customers and meeting their needs can be traced back to the days when it positioned itself as a company that offered good quality products at extremely competitive prices. Since the customer received the best services, the number of loyal customers increased manifold since the company loyalty card scheme was launched successfully.

To sustain the growth achieved through the launch of loyalty club cards, Tesco decided to adopt of four step approach:

- Launch better
- Bigger stores on a frequent basis
- Offer competitive prices and
- Focus on remote shopping services.

To make sure that its prices were the lowest among all retailers, a dedicated team of employees called 'price checkers' was employed for the task. Tesco's customer base and the frequency with which each customer visited its stores had increased significantly over the years. However, according to reports, the average purchase per visit had not gone up as much as it would have liked to see. For the last ten years, Strategic cost management and Activity based costing have created a framework for company to examine more closely the causes of their cost in order to improve management decisions and corporate profitability. Analyst belief that this was not a very positive situation, they also said that while it was true that Tesco was the market leader by a wide margin, it was also true that other companies were growing rapidly. Given the fact that the company was moving away from its core business by giving thrust on non-food and utility services items and was globalizing rapidly, observers were doubtful of its ability to maintain the growth it had been posting since its inception.

After the globalization, many companies are convinced that improving corporate profitability requires synergetic effect between all the units and division within the company. Tesco have to take steps like appointing marketing professionals for increased customer satisfaction and primarily examining the links between overall satisfaction and revenue. Meanwhile, the Management Accountant have traditionally focused on cost reduction.

Customer profitability analysis attempts to bring together marketing & accounting professional to analyse, manage and improve customer profitability.

Tesco must understand the present and future customer demands and try to improve its information technology and large database to help refine marketing efforts. Marketing tools and IT Systems now permit companies to get individual customer and customer groups with pin-point accuracy.

You are required:

- (i) State briefly the concept of Analytical Customer Relationship Management, Operating Customer Relationship Management & Collaborative Customer Relationship Management.
- (ii) What strategy is followed by Tesco to sustain the growth achieved?
- (iii) What steps it should follow to beat saturation? 3+6+6

3. Ridhi Ltd., will produce 3,00,000 kgs of 'A' and 6,00,000 Kgs of 'B' simultaneously from an input of 9,00,000 kgs of raw material 'C'.

The selling price of A is ₹ 8 per kg and that of B is ₹ 6 per kg.

Processing cost amount to ₹ 54 lacs per month as under:

Raw material C-9,00,000 kgs at ₹ 3 per kg.	₹ 27,00,000
Variable Processing cost	₹ 18,00,000
Fixed processing cost	₹ 9,00,000
Total	<u>₹ 54,00,000</u>

There is an offer to purchase 60,000 kgs of B additionally at a price of ₹ 4 per kg. Producing additional 60,000 kgs of B will mean 30,000 kgs of A will also be produced simultaneously. The existing market for B will not be affected by accepting the offer. But the selling price is likely to decrease uniformly on all sales.

As a Professional Management Accountant find the minimum reduced average price for A to sustain the increase sales.

4. Kunika Ltd. Co. has different divisions which are working as Strategic Business Units. Division A of the company is a profit making centre, which produces four products W, X, Y & Z. Each product is sold in the external market and the company has provided the following information.

	W	X	Y	Z
Market Price per unit (₹)	150	146	140	130
Variable cost of production per unit	130	100	90	85
Labour Hours required per unit	3	4	2	3

Product Z can be transferred to Division B but the maximum quantity that may be required for transfer is 2500 units of Z.

	W	X	Y	Z
The maximum sales in the external market (units)	2800	2500	2300	1600

Division B can purchase the same product at a price of ₹ 125 per unit from outside instead of receiving transfer of product Z from Division A.

You are required to calculate the transfer price for each unit for 2500 units of Z, if the total labour hours available in division A are:

- (i) 20,000 hours
- (ii) 30,000 hours

10

5. The Operation costs of a product produced by ZYX Ltd. are ₹ 53. Presently, the company produces only 600 units p.a. to sell at ₹ 55 per unit due to hard competition in the market. But with existing facilities, production can be increased to 1000 units if additional production can be sold in the market. The Company accordingly introduced Target Costing on Market Research, New Design for the product and changes in the process so that costs are brought down substantially and market share can be increased. The estimates for the next year are:

Target Selling Price	₹ 50 per unit
Target Profit margin	10% on sales
Target Volume	900 units

Required:

- (a) Calculate the target costs per unit and target costs for the expected volume, and
  - (b) Compare the existing profit with target profit.
- 5+5
6. There is 40% chance that a patient admitted to the hospital is suffering from Cancer. A doctor has to decide whether a serious operation should be performed or not. If the patient is suffering from Cancer and the serious operation is performed, the chance that he will recover is 70%, Otherwise it is 35%. On the other hand, if the patient is not suffering from Cancer and the serious operation is performed, the chance that he will recover is 20%, otherwise it is 100%. Assume that recovery and death are the only possible results.

Construct an appropriate decision tree. What decision should the doctor take?

5+5

**SECTION-B (20 Marks)****IT & Econometric tool in Performance Management***You are to answer any one Question, carrying 20 marks.*

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|--------|---|----|
| 7. (a) | Explain in detail the concept and function of Artificial Neural Network.                  | 14 |
| (b)    | Explain the concept of DATA WAREHOUSES.   | 6  |
| 8. (a) | Six Sigma identifies several key roles for its successful implementation. Discuss.        | 8  |
| (b)    | Discuss the different types of 'Online Analytical Processing (OLAP)?                      | 6  |
| (c)    | Discuss the importance of Decision Support Systems for gaining the Competitive Advantage. | 6  |

**SECTION-C (20 Marks)****Enterprise Risk Management***You are to answer any one Question, carrying 20 marks.*

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|---------|--|-------|
| 9. (a)  | Define the term 'Enterprise Risk Management'. Write a few lines on the same. Why "Enterprise Risk Management" is needed? | 2+4+4 |
| (b)     | State the different Strategic Decision for Risk Management?  | 10    |
| 10. (a) | What are the leading indicators for Sickness of a company?   | 12    |
| (b)     | What actions you would suggest for preventing corporate failures?  | 8     |
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