

FINAL EXAMINATION

June 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 Question*, 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. Sahni Auto Industries is a manufacturer and exporter of Auto parts with an annual turnover of Rupees one thousand crores. It employs about 2,000 persons in its factory in Punjab and its other offices in India and abroad. The personnel Administration and Human resources Department of the company is headed by Mr. Amit Kapoor, the Chief Personnel Manager.

Mr. Amit Kapoor, an Automobile Engineer joined the company 5 years ago as Product Development Manager. After a successful stint of 4 years as Product Development Manager, he was transferred to Personnel Administration and Human Resources Department as the Chief Personnel Manager as a part of Career development plan.

Mr. Vikas, MBA in Human Resources from a renowned Business school, joined the company as Personnel Manager only 3 months back. He reported to Mr. Amit Kapoor, the Chief Personnel Manager. He handled all routine personnel and industrial relations matters.

One day, during informal discussion with Mr. Amit Kapoor, Mr. Vikas suggested him of linking Human Resources Management with Company's strategic goals and objectives to further improve business performance and also to develop Organizational culture that fosters more innovative ideas. He also advocated creating abundant 'Social Capital' on the ground that people tend to be more productive in an environment which has trust and goodwill embedded in it rather than which is highly hierarchical and formal. Mr. Amit Kapoor disagreed with

Please Turn Over

Mr. Vikas and told him that the role of Human Resources Department was only peripheral to the business and all his suggestions about its strategic role were beyond the purview of Personnel Administration and Human Resources Department.

After this, Mr. Vikas started having number of arguments with Mr. Amit Kapoor on several issues relating to personnel and industrial relations since he felt that a person with a degree in Human Resources Management, he was in a far better position to run Personnel Administration and Human Resources Department. Mr. Amit Kapoor, the Chief Personnel Manager had often shown his displeasure on Mr. Vikas's argumentative tendency and had made it known to the General Manager.

The General Manager called Mr. Amit Kapoor in his office to inform him that he has been selected for an overseas assignment. He further told him to find a suitable person as his successor, he even suggested Mr. Vikas as a possible candidate. Mr. Amit Kapoor, however, selected Mr. Balram, who was working as Training Manager in a Multinational Company for the last 5 years. Mr. Vikas, soon started having arguments with Mr. Balram also over number of issues relating to industrial relations since he felt that he had no experience in handling industrial relations matters. Mr. Balram now realized that Mr. Vikas was trying to make things difficult for him. After a series of meetings with the General Manager, Mr. Balram eventually succeeded in convincing him to transfer Mr. Vikas to an office outside Punjab.

On learning about his impending transfer, Mr. Vikas wrote a letter to the General Manager giving details of various instances, when Mr. Balram had shown his incompetence in handling problematic situations. When asked for explanation by the General Manager, Mr. Balram had refuted almost all the allegations. The General Manager accepted his explanation and informed Mr. Vikas that most of his allegations against Mr. Balram were unwarranted and baseless. He further advised him to avoid confrontation with Mr. Balram. Mr. Vikas then wrote a letter to the Chairman repeating all the allegations against Mr. Balram.

On investigation, the Chairman found most of the allegations were true. He then called all the three-the General Manager, the Chief Personnel Manager and the Personnel Manager in his office and requested them to forget the past and henceforth to work in coordination with each other in an environment of Trust and Goodwill.

Required:

- (a) Identify and discuss the major issues raised in the case.
 - (b) Comment on the recruitment of the two Chief Personnel Managers.
 - (c) Would you justify Mr. Vikas's argumentative tendency with the Chief Personnel Manager? Give reasons for your answer.
 - (d) Do you agree with suggestion offered by Mr. Vikas to link Human Resources Management with the company's strategic goals? If yes, suggest prominent areas where Human Resources Department can play role in this regard. 6+4+5+5
2. Sure Success & Co is a team of professionals engaged in coaching the students of CMA Final Examinations. They offer coaching facilities in the main cities of the country. Though they have been in this profession for a long time, there is a lot of competition from many other coaching centres.

You are required to design a Balanced Score Card for Sure Success to readily read the parameters and implement its performance.

3. (a) Define 'Target Cost'. List the six key principles in Target Costing? 1+6
- (b) XYZ Co. Ltd. is a manufacturing company and sells its product at ₹ 1,000 per unit. Due to competition, its competitors are likely to reduce their price by 15%. XYZ Co. Ltd., wants to respond to this by aggressively cutting their price by 20% and expects that the present volume of 1,50,000 units p.a. will increase to 2,00,000. Further XYZ Co. Ltd. wants to earn a 10% target profit on sales.

Based on a detailed value engineering study, the comparative position is as given below:

| Particulars | Existing (₹) | Target (₹) |
|--------------------------------------|-----------------|---------------|
| Direct material cost per unit | 400 | 385 |
| Direct manufacturing labour per unit | 55 | 50 |
| Direct machinery costs per unit | 70 | 60 |
| Direct manufacturing costs per unit | 525 | 495 |
| Manufacturing Overheads: | | |
| No. of Orders (₹ 80 per order) | 22,500 | 21,250 |
| Testing hours (₹ 2 per hour) | 45,00,000 | 30,00,000 |
| Units reworked (₹ 100 per unit) | 12,000 | 13,000 |

Manufacturing Overheads are allocated, using relevant cost drivers. Other Operating costs per unit for the expected volume are estimated as per below:

| | |
|--------------------------------|-------|
| Research and design | ₹ 50 |
| Marketing and customer service | ₹ 130 |
| | ₹ 180 |

Required:

- (i) Calculate target costs per unit and target costs for the proposed volume showing break-up of different elements
- (ii) Prepare target product profitability statement 6+7
4. (a) What is 'Transfer Pricing'? Discuss on the 'Transfer Pricing Practices'? 2+4
- (b) ABC Ltd., has two divisions A and B. Division-A is currently operating at full capacity. It has been asked to supply its product to Division-B. Division-A sells its product to its regular customers for ₹ 30 each. Division-B (Currently operating at 50% capacity) is willing to pay ₹ 20 each for the component produced by division-A (this represents the full absorption cost per component at Division-A). The components will be used by Division-B in supplementing its main product to conform to the need of special order. As per the contract terms of sale, the buyer calls for re-imbusement of full cost to Division-B Plus 10%.

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Division-A has a variable cost of ₹ 17 per component. The cost per unit of Division-B subsequent to the buying part from Division-A is estimated as per below:

| Particulars | ₹ |
|------------------------------------|--------|
| Purchased parts-Outside vendors | 90.00 |
| Purchased part-Division-A | 20.00 |
| Other Variable Costs | 50.00 |
| Fixed Overheads and administration | 40.00 |
| | 200.00 |

The company uses return on investment in the measurement of Divisional and Division Manager's performance.

Required:

- (i) As a manager of Division-A, would you recommend sales of your output to Division-B at the stipulated price of ₹ 20?
- (ii) Would it be in the overall interest of the company for Division-A to sell its output to Division-B?
- (iii) Suggest an alternative transfer price and show how could it lead to goal congruence? 4+4+6

SECTION-B (20 Marks)

IT & Econometric tool in Performance Management

You are to answer any two Questions, carrying 10 marks.

5. (a) State the problems that are to be addressed by Supply Chain Management. 5
(b) Discuss the potential impact of Computers and MIS on different levels of management. 5
6. (a) "Government can, however, play an important role in examining the economic and social impact of e-commerce technologies and in promoting understanding and application of these technologies throughout Indian industries and communities".— Describe any 5 roles of the government. 5
(b) State the Technological and Operational factors of e-commerce. 5
7. (a) What are the key roles required for successful implementation of "Six Sigma"?
(b) Explain about the "Dashboard". 5+5

SECTION-C (20 Marks)

Enterprise Risk Management

You are to answer any two Questions, carrying 10 marks.

8. (a) 'In today's environment, financial firms operate in increasingly complex, competitive and global challenging market'. In the light of Basel II, can you briefly describe the various risks prevalent in the financial services. 5

- (b) 'Risk Management Process refers to the process of measuring or assessing risk and then developing strategies to manage risk'. Discuss the steps, which are taken to minimize the risk; 5
9. 'To be effective, any Enterprise Risk Management (ERM) implementations should be integrated with strategy-setting'. Do you agree? Give your views bringing out the basic elements of ERM and the reasons why ERM is implemented. 1+4+5
10. (a) Define the term 'Risk Management'. State briefly its basic objectives. 2+3
- (b) What are the commonly used techniques of 'Artificially Intelligent Expert System (AIES) Models' in Corporate Bankruptcy Prediction? 5