

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

**Business Management and Strategy
Examiners' comments and Suggested answers**

**Certified Finance and Accounting Professional (CFAP) – Summer 2017
Examinations**

Overall General Comments:

The overall performance much better than the previous attempt and 26.72% candidates passed as compared to 11.56% in the previous attempt. As in most previous attempts, questions on strategy were poorly attempted. Moreover, most of the candidates gave lengthy answers in which they included many points which were not relevant with regard to the question. Failure to read the question carefully was evident in a number of cases as would be discussed in the question wise comments.

Question-wise comments:

Question 1

General comments:

08.50% candidates secured passing marks in this question.

Part (a)

Common errors:

- Too generalized points were given mostly revolving around achievement of high profits and achievement of other objectives.
- Irrelevant things were mentioned like determining the size of business, co-ordination between the top and mid-level management, achieving targets, etc.
- Strategy implementation was discussed rather than strategic planning.

Suggested answer:

It would be essential for Best Limited to give high degree of importance to the strategic planning process to achieve the following objectives:

- (i) It would enable BL to identify, prioritize and grasp opportunities for achieving its objectives.
- (ii) It would enable BL to identify business risks in the environment and adopt appropriate measures to mitigate these risks.
- (iii) It would provide a framework for coordination and control of various activities at the corporate, business and functional levels.
- (iv) It would enable BL to make optimum utilization of its financial, human and all other resources.
- (v) It would enable BL to create alignment between long-term, medium-term and short-term objectives.

Part (b)

Common errors:

- Importance of continuous review of the existing strategy was emphasized which was not relevant.
- While mentioning the situations where the need for emergent strategy arises, incorrect points were given like change in management, acquisition/merger, etc.

Suggested answer:

Emergent Strategy - Emergent strategy is the revised strategy or a change in strategy which is developed due to the changes in the business conditions. Emergent strategy is adopted without prior formal approval. The emergent strategy must be consistent with the organisation's strategic intent and objectives.

A firm may adopt an emergent strategy due to various reasons which may include:

- (i) to take advantages of new opportunities in the environmental conditions such as discovery of new natural resources, etc.
- (ii) modification in manufacturing processes due to changes in pollution control laws;
- (iii) to curtail production due to loss of major markets caused by catastrophes/political changes in countries which constitute important export markets;
- (iv) to counter challenges posed by new competitors;
- (v) to manufacture new products to cater to the changes in customer tastes and preferences.

Question 2

General comments:

26.45% candidates secured passing marks in this question.

Part (a)

Common errors:

- General points or measures adopted in all circumstances were included such as preparation of budgets and budgetary controls instead of restricting to measures related to economies of scale.
- Totally inappropriate points were mentioned such as redesign the product, use cheap raw material, etc.
- The various levels of strategies were explained i.e. strategic, tactical, operational, which was not relevant.

Suggested answer:

The operational/strategic actions which would enable a firm to achieve economies in production and operating costs to maintain and strengthen its competitive advantage are as follows:

- (i) explore alternate sources of cheaper raw materials and components;
- (ii) negotiate with existing suppliers of raw materials and components for more favourable terms;
- (iii) relocate facilities to areas which have lower costs;
- (iv) improve capacity utilization to achieve economies of scale;
- (v) re-engineer processes to eliminate activities to achieve cost reductions;
- (vi) consider hiring of contract workers with the objective to reduce labour costs;
- (vii) outsource processes/manufacture of components to low cost suppliers;
- (viii) Implement efficient inventory management practices such as just-in-time inventory management techniques.

Party (b)

Common errors:

The most common error was that students tried to complete the required tally of four operational risks by mentioning various types of accidents such as fire, flooding, damage of goods by water, etc. which actually represented a single risk; and ignored the other risks.

Suggested answer:

The operational risks which may adversely impact the operations of a shipping company which carries bulk cargo of dry goods are as follows:

- (i) accident at the point of loading or discharge of the cargo;
- (ii) strikes by dock workers at the seaports;
- (iii) piracy/high jacking of ship during transit;
- (iv) jettisoning of cargo due to sea storm;
- (v) acts of wars/major political disruptions in the countries of loading/discharge of cargo or in the shipping lanes;
- (vi) stringent emission control regulations which may not be adhered due to malfunction/failure of equipment.

Question 3

General comments:

19.54% candidates secured passing marks in this question. However, most of the candidates were able to secure at least 3 to 4 marks.

Part (a)

Common errors:

- The term innovation was considered as linked to technology only and points related thereto were repeated such as product becoming obsolete because of introduction of new technology, failure of software, poor operating system, lawsuits due to use of pirated technology, accidents due to use of inappropriate technology, loss of technically skilled personnel, etc.
- Too simple and generalized reasons were given such as failure to sell the product, sub-standard quality, poor packing material, incompetent management, etc.
- Points such as lack of innovation, old design, etc. were mentioned probably because of not reading the question carefully.

Suggested answer:

The factors which are responsible for failure of new/innovative products in the market are as follows:

- (i) The innovating companies did not have understanding of customers' needs and designed new products which did not fulfill the needs and wants of the prospective customers.
- (ii) The innovating companies were not able to create awareness amongst the customers of the new products and promote understanding of how these products would meet their particular needs and be of value to them.
- (iii) The innovating companies were not able to identify the specific market segments for the new products and therefore were not able to tailor appropriate marketing strategies for these products.
- (iv) The innovative companies did not market the new products to the customers through appropriate distribution channels.
- (v) The innovating companies did not give due attention to efficient manufacturing and cost control measures which rendered the products uncompetitive in the market.

Part (b)

Common errors:

- How the company's name is projected in the sponsored event i.e. in TV advertisements, billboards, event tickets, etc. was explained which was totally irrelevant.
- It was stated that it is a cheaper way of advertisement.
- Examples of major companies sponsoring events in Pakistan were given which was totally irrelevant.
- It was stated that sponsorship is a better way of advertising without offering any further explanation.

Suggested answer:

Sponsorship in the context of product promotion involves creating greater awareness of the company and its product(s)/brand through specific events such as TV/radio shows, sports and musical programs or health-related matters. Sponsorship promotion events are generally led by celebrities and renowned specialists/personalities who have achieved prominence in their respective fields and enjoy popularity among the audience.

Companies prefer sponsorship promotion of their products/services to achieve the following objectives:

- (i) Associating the name of the promoting company or its brand with the specific event helps to elicit focused customer attention to create optimum impact on the audience which may not be achieved through advertisements launched in TV/printed/billboard media due to clutter impact.
- (ii) Sponsorship with selected theme of the event enables the promoters to target their communication and promotional efforts to specific interest/lifestyle groups or geographic regions of a segmented market and be able to create maximum impact within a limited time-frame.
- (iii) Glamorous events and celebrities/reowned personalities serve as a link between the company's products and its customers.

Question 4

General comments:

45.30% candidates secured passing in this question.

Part (a)

Common errors:

- Matters related to CSR were emphasized which have little or no connection with ethics.
- Examples of unethical conduct were given which were not relevant.
- Totally inappropriate points were included such as payment of high salaries and treating the employees well.
- Words mentioned in the question were repeated i.e. that the company should promote a culture of adherence to ethical standards.

Suggested answer:

The following measures may be implemented by the management of ABC Company Limited in pursuance of a culture of strict adherence to high standards of ethical conduct:

- (i) A copy of the code of ethics approved by the board of directors is provided to all the employees.
- (ii) All new employees are informed of the high standards of ethics practiced in the company and the policy of the management in this regard.

- (iii) Training sessions/workshops on ethics are conducted from time to time with the active participation of the senior management.
- (iv) A system of reporting whereby non-compliance of ethical conduct is brought to the notice of the management.
- (v) All external stakeholders such as suppliers, contactors and customers are provided a policy memorandum of compliance for dealings with the employees.
- (vi) All internal policies/rules and the prevailing laws are observed in letter and spirit and instances of deviations and findings are reported to the ethics committee.

Part (b)

Common errors:

The most common error in this part was that the candidates repeated the points related to ethical conduct only, in different ways.

Suggested answer:

A company may demonstrate that it operates as a responsible corporate citizen by:

- (i) improving the efficiency and sustainability of its business activities and products by reducing electricity consumption, greenhouse gas emissions, water use and waste;
- (ii) ensuring that its external contractors conform to regulatory requirements and meet the required Health, Safety and Environment (HSE) standards;
- (iii) establishing goals and strategies for the enterprise and reporting publicly of its performance;
- (iv) integrating HSE practices consistent with the company's management system into all aspects of the business and ensuring legal compliance.

Question 5

General comments:

26.82% candidates secured passing marks in this question.

Part (a)

Common errors:

The most common error in this part was that the candidates did not focus on the level of the vacant position i.e. General Manager Marketing and mentioned competencies with regard to middle level managers such as requisite qualification, marketing experience, ability to meet deadlines, etc.

Suggested answer:

The management of CTC should assess the following competencies in recruiting a suitable replacement for the position of General Manager Marketing:

- (i) **Communication Competency**
Ability to communicate effectively with senior management and subordinates as well as other stakeholders, including customers.
- (ii) **Planning and Administrative Competency**
The ability to plan and organise activities and make rational decisions especially in matters of pursuing marketing strategies to counter policies of the competitors.
- (iii) **Teamwork Competency**
The ability to complete the tasks through co-ordination with senior members of the management team as well as the subordinates.
- (iv) **Strategic Action Competency**
The ability to understand the overall mission and strategies of the organization and be able to achieve the objectives of CTC
- (v) **Self-management Competency**
The individual should have a sense of integrity and good ethics and be willing to accept responsibilities.

Part (b)

Common errors:

- It was stated that the benefit derived by the employee from discussion on performance appraisal report was that the employee would be able to get promotion and higher increment which was totally incorrect.
- Benefits to the employers were stated rather than the employees such as avoiding conflicts, presentation of management's point of view, demonstrating un-biasedness of the management, learning about employees' problems, etc.
- Advantages and importance of performance appraisal report were stated which was totally irrelevant.

Suggested answer:

A candid discussion of the performance appraisal report between the employer and the employee would be beneficial for the employee from the following standpoints:

- (i) The employee would receive an objective feedback of performance and level of competence in the current assignment.
- (ii) The employee would be in a position to assess future career growth prospects in the organisation.
- (iii) The employee would obtain an objective rationale for award of salary increase/rewards on the basis of performance.
- (iv) The discussion would help to identify the employee's weaknesses and training needs to improve/upgrade the individual's work skills.

Question 6

General comments:

56.97% candidates secured passing marks in this question.

Part (a)

Common errors:

The answers contained too generalized points such as creating awareness about the product, creating demand, etc. which are the objectives of any marketing strategy and are not necessarily linked to the use of brand names.

Suggested answer:

Leading companies use brand names and expend resources and make efforts to promote their brands to achieve the following objectives:

- (i) Brands distinguish the products of the promoting company from the alternative products which are sold by the competitors.
- (ii) Brands create a perception of security and familiarity of the quality of the branded products among the customers.
- (iii) Brands may have attributes/connotations for the buyers in terms of prestige/satisfaction associated with the use/possession of a particular branded product.

Part (b)

Common errors:

The most common reason for errors in this part of the question was that the students did not read the question carefully and presumed that different brand names are being used in respect of soaps, edible oil and UHT milk whereas the question clearly stated that three different brand names were being used in respect of each product.

Suggested answer:

Zeal Limited may prefer to market its different products under different brand names to achieve the following advantages:

- (i) If a particular product is not successful in the market or has a perception of poor quality, it would not adversely affect the company's name or reputation.
- (ii) If the markets for the products comprise of different segments in terms of age, incomes and tastes/preferences of customers, etc. it may be advantageous for each product to have a different brand name to create appeal to the different market segments.
- (iii) If the strategy is to launch a new product to make inroads in the market held by the market leader, it may be advisable to create and promote a new brand which challenges the basic strength/appeal of the brand of the market leader.

Question 7

General comments:

77.19% candidates secured passing marks in this question.

Common errors:

- Part (i) (d) was marked as the correct answer instead of (b).
Part (iv) Most poorly attempted part and all the incorrect answers were mentioned.
Part (v) (a) and (c) were commonly marked as the correct answer instead of (d).

Suggested answer:

- (i) the switching costs of the loyal customers are high
- (ii) conglomerate expansion or diversification
- (iii) operational benchmarking
- (iv) organic organization
- (v) procurement

Question 8

General comments:

07.02% candidates secured passing marks in this question.

Common errors:

- Too generic points were mentioned such as quality of trainer and training material, motivation of employees, etc.
- Advantages of training were mentioned which were totally irrelevant.
- Steps which should be taken to obtain maximum benefit post training were stated which were also not relevant.
- Answers included discussion on learning curve effect.

Suggested answer:

The factors which contribute towards the success of active workplace learning process at the factory floor level are as follows:

- (i) Real work situation
- (ii) Informal Two way communication in an open environment/sharing of knowledge and experiences of participants.
- (iii) Commitment from the participants.
- (iv) Involvement of senior management

Question 9

General comments:

19.06% candidates secured passing marks in this question.

Part (a)

Common errors:

The examples which were given mostly showed that though the students had learned the definition, they had little understanding of the main characteristics of KPIs. In most of the cases, the examples included purely qualitative aspects such as customer satisfaction, reliability of online transactions, quality of employees, level of diversity, etc. Moreover, too remote issues were identified such as number of hits on the web, reduction in number of frauds, number of new hirings, etc.

Suggested answer:

Key Performance Indicators are quantifiable measures for evaluating the performance of the critical success factors of an organization in achieving its strategic business targets against its set objectives.

The Key Performance Indicators for a commercial bank may include:

- (i) Total Deposits per Branch (Total Deposits \div No. of Branches)
- (ii) Non-performing Loan Ratio (Non-performing loans \div Total Loans)
- (iii) Capital Adequacy Ratio (Total equity \div Total weighted risk assets; This is expressed in terms of percentage).
- (iv) Advances – Deposit ratio (Total Advances \div Total Deposits; This is expressed in terms of percentage).
- (v) Revenue per employee (Total revenue \div Total employees).
- (vi) Spread between cost of deposits and income on advances (Rate of interest earned on advances less rate of interest paid on deposits; This is expressed in absolute terms).
- (vii) Branch Efficiency Ratio (Total non-interest expenses incurred \div Total Revenue (interest + non-interest income) generated; This is expressed in terms of percentage).
- (viii) Percentage increase in credit/debit cards issued during the year.
- (ix) Number of new bank branches opened during the year.
- (x) Number of new loans/advances given during the year.

Part (b)

Common errors:

- Totally incorrect replies were given. Some examples are given below:
 - It is a system whereby three years data is given.
 - Triple bottom line means gross profit, operating profit and net profit.
 - In this system reporting is made to three levels of management.

- The candidates had cursory knowledge and produced vague answers containing the following types of statements:
 - In this system performance is evaluated from three different angles.
 - In this system of reporting more importance is given to non-financial aspects of performance.
- Incorrect and vague examples were given such as percentage of wastage, number of schemes launched to improve environment, fringe benefits to employees, etc.

Suggested answer:

Triple bottom line reporting system involves assessment of actual performance in terms of economic/financial, environmental and social indicators in the business organisations' operating models and reporting systems.

The Triple bottom line reporting system comprises of a company's overall performances pertaining to:

Economic/Financial indicators:

- (i) sales revenue
- (ii) profits, and earnings per share
- (iii) dividends per share
- (iv) production (units)

Environmental indicators:

- (i) energy intensity (Revenue per unit of energy consumed)
- (ii) release of toxic materials/pollutants
- (iii) usage of recycled materials
- (iv) Use of renewable resources.

Social indicators:

- (i) donations to communities and sponsorships of schools/welfare schemes
- (ii) percentage of employees comprising males and females
- (iii) percentage of employees from minority groups
- (iv) percentage of physically challenged employees
- (v) employee satisfaction, based on feedback of employee opinions.

Question 10

General comments:

31.05% candidates secured passing marks in this question.

Part (a)

Common errors:

- Too elementary points were enumerated such as passwords should not be written on desk or diary, password should not be disclosed to anybody, etc.
- Too generic points were mentioned such as implement strict controls, ask the employees to be careful about their passwords, train the employees in the use of IT, etc.

Suggested answer:

The measures to ensure the effectiveness of password control are as follows:

- (i) Passwords should not be easy to guess or difficult to remember.
- (ii) Appropriate controls for setting of passwords should be adopted to avoid use of weak passwords. For example, it must contain alphabets, numbers and special characters and must not be less than a specific length, say eight characters.
- (iii) Password settings should include maximum and minimum age e.g., there should be a forced password change policy to change password, say, after 30 days. Also there should be a minimum age of passwords, e.g. 10 days before which passwords cannot be changed.
- (iv) Password settings should retain password history so that users may not be allowed to reuse any of their last, say, five passwords.
- (v) Password policy should include appropriate account lockouts, e.g. user account may be locked after specified number of unsuccessful attempts and the subsequent unlocking process should be done by the administrator after compliance with the investigation procedure.
- (vi) First passwords should be communicated in a secure manner and system should force users to change their passwords after first login.
- (vii) Passwords must be stored in irreversible encrypted format.

Part (b)(i)

Common errors:

- Various types of incorrect points were mentioned such as high delivery costs, weak internet connections, risk of litigation, etc.
- In many cases where the impediments were identified correctly, the explanation was inappropriate. For example, in the case of start-up costs, long list of costs was given whereas the reason start-up costs act as an impediment were not specified.
- Unlawful activities of suppliers using e-marketing were highlighted which cannot be termed as an impediment.

Suggested answer:

The barriers which are impediments on the growth of e-business are as follows:

Set-up costs – It is expensive to establish a website for sale of products and receiving payments by credit/debit card, interswitch or PayPal and maintaining records of customers debit/credit cards.

On-going operating costs –The website has to be updated from time to time to retain user interest and also make special offers to encourage customers to revisit the site.

Time required to establish the system – It takes time to establish a website that customers are aware of and would prefer to visit.

Lack of in-house skills – A company might not be in a position to employ skilled individuals for maintenance of a website due to cost constraints.

Nature of products – Certain products and services are easier to sell on the internet than others. Non-standardized goods such as fashion clothing/jewelry items pose difficulties when sold 'by catalogue'. Companies that sell such items by internet earmark substantial budgets for sale returns.

Part (b)(ii)

Common errors:

- Instead of specifying the features of intranet, only its advantages were highlighted.
- Incorrect points were given such as it is a cheaper way of communication, communication through intranet is very secure, etc.

Suggested answer:

Intranet involves use of internet technology within an organization to facilitate its employees to communicate with each other. Intranet allows the employees to share in-house information relating to products, policies and procedures and company newsletters. Intranet also uses public communications network and is therefore exposed to the risks of unauthorised access to files and software by the users of internet. Access to intranet can be secured against unauthorized access by firewall hardware and software.

(THE END)