



## Strategy and Performance Measurement

### Instructions to examinees:

- (i) Answer all **SEVEN** questions.
- (ii) Answer in **black** pen only.

Q.1 Elite Limited is engaged in manufacturing and selling single product 'Alpha'. The sales function is led by Babar who likes to involve his team in key decision making and gives them free hand in meeting day to day challenges. He believes that his team comprises of professionals who are highly motivated and need minimum support.

At the beginning of the year, Babar shared the following bonus scheme with his sales team:

Sales target (units)	< 2,000	2,000 to 3,999	4,000 to 4,999	5,000 or more
Bonus	No bonus	One month gross salary	Two months' gross salary	Three months' gross salary

The details of targets achieved by his sales team is given below:

**Farheen** – she is a self-motivated person. She sold 4,500 units. Babar believes that Farheen could have met that level of target by utilizing lesser resources.

**Shahzaib** – he is the star performer. He sold 5,000 units. Given his potential, it would not have been surprising for Babar if Shahzaib had sold more than 5,000 units during the year.

**Kinza** – she has methodical approach. She sold 2,000 units. During the year, there was an opportunity for her to capture a large potential client. However, she failed to capitalize on it in a fear that failure to capture that client may also affect her performance in meeting the minimum target.

**Zubair** – he joined Babar's team a year ago. He could sell 1,500 units only. He was determined to meet the target for bonus and now believes that support from Babar could help him in meeting the targets in future.

### Required:

- (a) Evaluate the performance of each team member of Babar. Also suggest the improvements, if any, in the existing bonus scheme. **(10)**
- (b) By using McGregor's Theory X and Theory Y, discuss the management style of Babar. Would you suggest change in the management style? **(06)**

Q.2 Yasir Ahmed is a pharmacist and an entrepreneur who has developed an expert system for doctors that recommends possible medications available in the hospital pharmacy. The system maintains a database of medications, their generic formula and possible symptoms for which they are prescribed. When a doctor inputs the patient's symptoms or a generic formula in the system, it matches them with appropriate medications present in the database and presents the doctor with different options of the possible medications. The system also contains a glossary of technical terms used by pharmacists and their explanations.

### Required:

Explain how the system presented above meets the essentials of a successful expert system. **(06)**

- Q.3 Dream Home Limited (DHL), property developer, has strong reputation for constructing luxurious homes at the prime locations of Green Land (a country known for its landscapes). DHL's niche market comprises of affluent customers who seek state-of-the-art homes.

As per DHL's policy, the homes are constructed and handed over to the customers within a promised time of 12 months. This also gives DHL a competitive advantage over its competitors who usually take 18-24 months to construct similar homes.

Green Land faced recession in the last year. However, during the current year **2021 i.e. termed as recovery period** by economists, the demand for homes has increased by an estimated 25% from **2019 i.e. pre-recession period**. The extracts of financial performance of DHL for 2019 and 2021 are given in the enclosed **Annexure**.

During the period of recession, the board of DHL made some aggressive decisions including:

- acquiring 2,500 plots when the prices of plots went down by almost 40%. The acquisition was financed through bank loan under a covenant that the entire loan will be immediately repayable if gearing level (Debt / Debt + Equity) at book value exceeds 65% at any time.
- transformation from traditional marketing to digital marketing strategy. The marketing team has taken various measures to communicate the unique designs and features that DHL has been offering to the targeted customers.

In the recovery period, the profitability of DHL has improved significantly. However, the management faced different set of challenges. One of the construction materials was short in supply. Therefore, an alternative material was imported which caused delay in completion of some homes by 3-6 months. Further, some customers have requested some design modifications and management is considering to charge additional amount as imported material has already resulted in additional costs. However, in the past, DHL has not charged customers for such modifications.

**Required:**

- (a) Evaluate the financial performance of DHL during 2021 in comparison with 2019. (15)
- (b) Discuss the non-financial performance and recommend the improvements that may need management's attention. (06)

**ANNEXURE**

**Extracts of statements of profit or loss (Rs. in million)**

	2021	2019
Revenue	65,000	42,750
Cost of sales	(32,500)	(28,500)
Gross profit	32,500	14,250
Marketing expenses	(2,700)	(1,800)
Selling and admin expenses (80% variable)	(1,250)	(1,000)
Operating profit	28,550	11,450
Interest expense	(3,400)	(1,710)
Profit before tax	25,150	9,740

**Extracts of statements of financial position (Rs. in million)**

	2021	2019
Property, plant and equipment	5,000	4,200
Inventory (mainly plots)	48,750	32,500
Bank loan	40,000	18,000
Share capital (Rs. 10 per share)	500	500
Retained earnings	25,000	20,000

**Other relevant data**

Number of homes sold	650	570
Number of plots held in inventory	2,400	1,000
Competitors' average sales price of homes (Rs. in million)	80	68

- Q.4 Kashan, FCA, has recently retired as CEO from Falcon (Pvt.) Limited (FL), having reputation for good business practices. FL has been the tax client of Epitome Consultants (EC), for over 10 years. The Senior Tax Partner at EC, Asif, who has also been the tax partner of FL, approached Kashan to join them as HR partner and also proactively supported his appointment. Kashan found the position and pay attractive and joined EC.

In the recent partners' meeting, Kashan, has been assigned a task to reason out the high staff turnover with suggested improvements. The investigation has revealed that tax department has the highest staff turnover mainly because of aggressive nature of Asif who often gets offensive and has even fired some staff members because of differences of opinion with him.

Kashan has informally discussed Asif's behaviour with another partner who advised him not to include this matter in his findings report for next partners' meeting. He informed that Asif is the senior partner and usually has final say in all key matters and he might not appreciate Kashan's bringing the matter of his behaviour in the partners' meeting.

**Required:**

- (a) Discuss the threats to compliance with fundamental principles of ethics that Kashan might be subject to. (06)
- (b) Explain the fundamental principles of ICAP's code of ethics that Asif may be compromising. Also explain these principles from the perspective of Kashan if he agrees not to include the matter of Asif's aggressive behaviour in his finding report for next partners' meeting. (09)

- Q.5 Nila Pani has emerged as a beautiful new tourist spot due to the creation of a small dam that is about 5 hour drive away from Islamabad. It offers scenic views of green mountains and blue water. Nila Pani has already attracted three hotels: Premier Hotel, Star Hotel and Nila Pani Inn that charge Rs. 10,000, Rs. 3,000 and Rs. 800 per day, respectively. The rooms are all of same size with a capacity of four persons. About three days' stay is usually enough to cover all the activities that include boating, hiking, and horseback riding for about Rs. 2,000 each. It also has small restaurants around the dam that offer unique food experience. It is no surprise that Nila Pani is quickly gaining attraction among weekend travellers. Although, it must be said that the roads do not extend out to the spot yet and an experienced driver is needed to tackle the challenges of the commute. Toyota GLi or Toyota Prado are recommended for the journey and can be rented out for a return journey from car rental companies for Rs. 10,000 and Rs. 35,000 respectively.

Holiday Travels (HT) is a well-established local tour operator. HT wishes to capture the growing market for Nila Pani and has already conducted site and market research. It was found that a couple of travel companies who are direct competitors of HT have already discovered the spot and are offering following four-person packages for three days:

- Package A : Rs. 70,000 (Included: Premier Hotel room and Toyota Prado return fare)
- Package B : Rs. 30,000 (Included: Star Hotel room and Toyota GLi return fare)
- Package C : Rs. 14,000 (Included: Nila Pani Inn room and Toyota GLi return fare)

HT also wishes to develop 3 days' weekend packages for all the three hotels with minimum 20% profit on each package.

**Required:**

- (a) Provide all the four-person package options possible with respect to hotel and vehicle type and highlight the gaps in the market. (04)
- (b) Recommend the most appropriate package option for each hotel from (a), and suggest possible Porter's competitive strategies for it. (13)
- (c) HT's representative has devised a Premier Hotel package targeting affluent families in Islamabad. To promote the package, he is planning to place an advert in the national newspaper and directly call people in posh areas of the city. Analyse the promotional strategies devised by HT. (04)

Q.6 Kolachi Nihari (KN) is a new restaurant that is becoming popular for its unique taste of nihari. It is using traditional methods of promotion such as billboards, brochures and promotional vouchers to attract the customers.

KN has a bustling dine-in, takeaway and delivery business. However, the telephone calls for deliveries are too many to handle and there are numerous complains of erroneous order taking. KN is considering to develop its own web-portal or use an e-intermediary to handle the order taking aspect of the business.

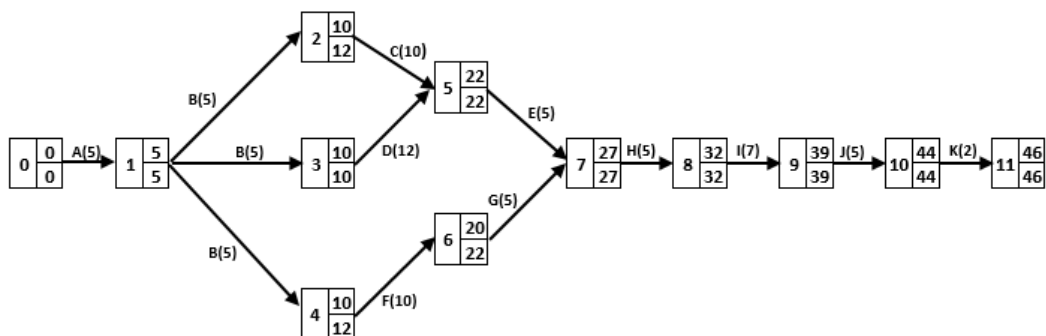
**Required:**

- (a) Explain why using e-intermediary would be a better option for KN than developing its own web-portal. (08)
- (b) Explain the existing promotion strategy of KN. Also, suggest how it could be different if KN decides to select the platform of e-commerce. (05)

Q.7 Secure Access Ltd. (SAL) is an IT company that provides access control solutions to offices. SAL’s solution is an integrated system that has both hardware and software components. For a typical 800 to 1000 sq. ft. office with a main entrance and an exit, SAL follows a standard plan. The network analysis and activity table for the standard plan are presented below.

Activity	Task	Duration (Working days)
A	Requirement Analysis	5
B	System Design	5
C	Frontend Programming	10
D	Backend Programming	12
E	Test Programming	5
F	Hardware Installation	10
G	Network Setup	5
H	System Integration	5
I	System Testing	7
J	Training/Support	5
K	Handover/Go Live	2

**Diagram:**



A new customer has agreed with everything about the standard project except the timeline. He has asked SAL’s manager to reduce the minimum project timeline. In an effort to serve customer requirement, the manager has proposed the following to SAL’s management:

- (i) The first part of Activity G, i.e. setting up of LAN cables and wiring, takes 3 days before they are connected with the hardware. Therefore, this first part of Activity G can be started simultaneously with Activity F. The remaining part of Activity G can start right after activity F. This will reduce the float and overall timeline by 3 days.
- (ii) Activity E constitutes of three parts: testing of frontend programming (Duration: 2 days), backend programming (Duration: 2 days) and all programming together (Duration: 1 day). Since Activity C finishes first, it can be tested by itself first. The rest of the Activity E can be done after Activity D. This will reduce the float for Activity E and overall timeline by 2 days.

**Required:**

Analyse the proposals in detail and recommend your approval for each.

(THE END)

(08)