

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION – JULY 2019

NOTES:

Answer the Question in Section A

Answer only 2 Questions in Section B

TIME ALLOWED:

3 hours, plus **20 minutes** to read the paper

INSTRUCTIONS:

During the reading time you may write on the examination paper, but you may not commence writing in your answer book. **Please read each Question carefully.**

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

List of the cover of each answer booklet, in the space provided, the number of each question attempted.

Section A - Question 1

Libra recently returned to Sri Lanka after graduating with honours in a special degree in Business Administration from a world class university. Her husband, Dudley, has a small Tea estate near Hiniduma in the Galle District, Sri Lanka.

Their average monthly income is around Rs. 1,000,000 with monthly average expenses around 90% of monthly revenue; the small margin is not sufficient even to meet his personal bill payments. The monthly income from the estate and family income is not sufficient to cover their monthly expenses.

Dudley is a well-known golf player at the Nuwara Eliya Golf Club situated in the Sri Lankan hill country. He used to travel to several countries to play golf representing his club. Most of his travel expenses are borne by well-wishers, his fans and a few companies. He occasionally visits his estate and completely relies upon a trustworthy Manager, Douglas, who is, by profession, a Planter. However, recently Douglas has been complaining about the enormous wastage of tea leaves. The average purchase of tea leaves has not increased, mainly due to the weather and climate changes experienced since the recent tsunami hit. Libra and Dudley are very worried about the emerging situation in their estate.

The tea prices for certain tea categories at the Tea Auction in Sri Lanka have not shown a dramatic increase, particularly for low country tea. The main tea buyers from eastern Asia are more interested in strong flavours like black Tea which are grown in the middle of the country. The quantity from the daily auction is not sufficient to meet the demand. However, the total export of tea is coming down and in gradual decline in the trade account due to the new entrants to the tea market from African countries and China.

Green tea is very popular now among the working population and young crowds. Coffee drinks and its several variants such as Café Latte (or Café au lait), Cappuccino, Espresso, Flat White, Long Black, Macchiato (also known as a Piccolo Latte), Mochaccino, Irish Coffee, etc are in increasing demand among Asian elites instead of tea. Other herbal extracts, such as Camomile flower tea, are also becoming more popular among people who are concerned with health issues.

Libra has not intervened in her husband's business as she is occupied with her own business consultation firm, which is very famous among entrepreneurial youths. Most people seek a consultation with her on project evaluation, feasibility studies and business plans. She occasionally helps with insolvency matters as well. Dudley was a little hesitant to discuss his matters with her in the past, but they had a long discussion about the future of the estate, which is a 25 acre old tea cultivated land with a natural waterfall. The area experienced heavy rain for 9 months and the water level never came down any day during the year.

During the discussions it was revealed that most of the tea shoots from the estate are rejected by the closest factory due to maturity. This has been happening even though two tea pluckers

are labouring every day to pluck tea leaves. Any plucked tea shoots which are not comprised of an unfurled bud with two or three soft leaves will be rejected. There is another factory which will buy tea leaves which are a little mature, but the transport cost is higher as it is 10 Km away from the present factory.

The current prevailing price of raw tea leaves is around Rs. 80 to Rs. 90. The expenses of the estate are very much higher than other estates because of the office administration and casual workers' bills. Casual workers are used to build temporary soil conservation walls. There are 8 office workers who have done administration, accounting and transport duties. Dudley rarely visits the office and expects Douglas to manage everything.

Dudley is now planning to enter into the water bottling market and give up selling tea leaves to start a new venture of bottled water. He has little knowledge on how to address the big competition in the existing bottled water market, the cost of machines and getting Health Ministry certification and renewal as major concerns. However, Libra thinks it would be better to diversify their business and her recommendation is to expand the tea leaves business and to curtail office staff and sell tea leaves to two factories.

In recent discussions with Douglas it was revealed that the present tea crops need to be removed, as they are very old, and to plant new varieties. He proposes to use casual labourers who do not have much work presently. When expanding with new tea cultivation, a major problem is the use of weedicides, as Dudley is an environmentalist and he dislikes the use of chemicals.

REQUIREMENT:

Prepare a report for Dudley's tea business in which you:

- (a) Critically analyse the strategic position of the business applying the relevant theories and models;
- (b) Assess the key issues facing the business and evaluate the options for it in dealing with such issues; and
- (c) Recommend an appropriate strategy to ensure the best way forward for Dudley's business.

(Total: 50 Marks)

Section B - Answer two Questions Only

1. Binda Association has recently decided to change its core business due to continual failures in its business of importation of vehicles. The top management consists of five directors, including a well reputed CEO. At a recent board meeting, the CEO expressed that it would be very difficult to recover from the continuous losses experienced due to the political and economic situation which prevails in the country, in particular new taxes and other custom barriers imposed by the government to get rid of the fiscal difficulties aggravated by the reviving American economy under the Trump administration.

Its traditional business in vehicle importation focuses on importing reconditioned cars. The company has a confidential arrangement with a Japanese vendor, who purchases vehicles involved in accidents from various countries and repairs them to brand new condition and then changes their running mileage into minimum level and sends those vehicles to Bina association as reconditioned vehicles.

The company employed five permanent young mechanics who are assigned to make sure that the imported vehicles have no defects and to build trust among new customers who come to the showroom. There are two young and attractive sales girls in the showroom who are experienced in deceiving customers. They are very talkative and well educated in marketing. Because of the sales girls and the competency of the technicians, the company has earned a very high volume of business turnover before the government imposed new customs procedures. The CEO maintains a good rapport with customs officials and officials of the Department of Motor Vehicles (DOMV). Therefore, importations have been released without much burden and vehicle registration is completed quickly. All of these services are provided to customers without any fee. Hence, customers prefer to buy their vehicles from Binda Association.

Now the company has to face a police inquiry resulting from an audit by the Customs Department and the DOMV that revealed a fraud from a long time ago. The Binda Association CEO suddenly resigned, as he plans to migrate. Due to all of these issues and heavy losses the company is now in chaos.

(i). Prepare a Report to the Board of Binda Association about the strategic issues the company faces and advise the board on the appropriate strategic proposal to develop Binda Association going forward. In that report critically assess the role played by the CEO in the light of business ethics.

(25 Marks)

2. The BMC is a public sector company established in the 1970s as a public sector venture to import and distribute building materials throughout the island at a reasonable price. At the inception of the company it enjoyed super profits and employees were motivated by an annual bonus. Now the corporation has made a large number of staff redundancies and is suffering severe losses. Most of the time it has to get bank loans to pay the salary bill. The capital money provided by Government has also not been prudently invested. The Board of Management, at its recent meeting with the Finance Ministry high level officials, concluded that a VRS (Voluntary Retirement scheme) to remove over staff would be introduced. The company has very strong unions and also a number of informal organizations led by various political elements. It is an obvious fact that the VRS decision has not been well communicated with staff. Therefore, the politically appointed CEO has a fear of more trade union actions and sabotage.

Write a report to the Board of Directors taking into account the following two questions:

(i) The Leadership style that will be more appropriate to solve the employee issue and to make effective teams to continue the business.

(ii) How can the company motivate its employees to engage effectively with the VRS programme?

(25 Marks)

3. Power is the potential ability to influence others and influence is the effect a person's actions have on attitudes, values, beliefs or behaviours of others.

(i) How is power used by leaders and managers to make changes in subordinates towards achieving organizational objectives?

(ii) Discuss the differences of Leader Vs Manager with the McKinsey 7 S Framework or any other management model theory.

(25 Marks)

END OF QUESTION PAPER