

IIM Kozhikode
Management of Change & Transformation

Instructions

- ✓ Open Book – Students can refer to Books, Photocopies and Notes.
- ✓ 10 Marks are allocated for neatness. Write neatly and legibly.
- ✓ Read the question carefully, think through the answer and then write.

Time 3 Hours

Marks 100

Part A

8 X 5 = 40 Marks

Answer FIVE Questions ONLY

1. What are the key insights that you gained from the course?
- ✓ 2. Identify three of your change competencies and explain how they can be used for bringing about change at your work place.
3. Explain an incident from your work experience, where you observed a manager/leader implement change effectively.
- ✓ 4. Describe any one model of organizational diagnosis with a suitable example.
- ✓ 5. Differentiate – Theory E and Theory O with real examples.
- ✓ 6. Give any five actions that would bring about change in culture with example?
- ✓ 7. Give three examples of resistance to change and strategies to manage it.
8. Explain why a change manager should balance or manage content and process of change.

Part B

2 X 25 = 50 Marks

Answer TWO Questions ONLY

- ✓ 1. Give a step by step change plan for ASDA. Clearly mention a. The problems, b. The change strategy, and c. The sequence of actions for implementing the same.
2. Explain in detail a major change you experienced in your work place. Give details of the change strategy, change process, force field analysis, change leaders, managing of resistance to change, culture change, etc.
- ✓ 3. Explain any one organizational change model based on a case you studied in the course.
4. If you are the new head of corporate HR at BGG (Clash of Cultures case), how will you make the organization become professional with long term thinking, business orientation and customer orientation? Give a detailed step by step plan.

Indian Institute of Management Kozhikode

eEPSM -03 / ePGP - 02

END-TERM EXAMINATION

Management of Service Business

Time: 90 minutes

Maximum Marks: 30

24

Instructions:

This is an **open book examination**. You may use your course textbook: Services Marketing: People, Technology, Strategy, Christopher Lovelock, Jochen Wirtz and Jayantha Chatterjee for the exam and **NOT** any other resources.

Questions are based on the case study provided – The Annapoorna Dabbawalla Company Ltd.
Answers should **NOT** exceed 2½ pages. (15 marks each)

- ✓ 1) What are the three aspects that comprise the foundation for setting prices in services industry? Which aspect is used by the Dabbawallas? Should they rethink the foundations of their pricing strategy?
 - ✓ 2) What are the two channels of communication for messages originating from within the organization? Which communication channel do you think would be ideal for Dabbawallas to use effectively to influence its existing customers to continue patronizing them?
-

Case Study 3

THE ANNAPOORNA DABBAWALLA*
COMPANY LTD. (ADC)**

It's 9:00 A.M. in Mumbai, and Anu Kasbekar of the Annapoorna *Dabbawalla* Company Ltd. (ADC) is at the doorstep of the Kulkarni residence to collect Mr. Kulkarni's home-made lunch from his wife. Kasbekar has just begun his daily routine which over the next few hours will see him, along with Mumbai's nearly 5000 other *dabbawallas*, deliver nearly 2 lakh 'tiffin' boxes to working people across the city; and later return the empty tiffin boxes to their respective homes by evening.

It is a workflow process that is run by semi-literate and illiterate, has been touted for its unmatched world-class efficiency and has corporates trying to learn the fundamentals of six-sigma using it as a model.

Despite their huge success in the past, the Annapoorna *Dabbawalla* Company Ltd. is today at the crossroads. The company and the *dabbawalla* trade itself are now under the threat of extinction; and this despite the efficiency and accuracy of the *dabbawallas* remaining high. The decline in business is largely attributed to the change in working and eating habits of a fast modernising population.

The Dabbawalla Business Model

The concept of *dabbawalla* delivery system started in Mumbai in the mid 1880s. The city's population then was a mere 10 lakhs as against the more than 1.30 crore it is today. There were no buses or suburban railways at that time, and the *dabbas* were transported on bicycles, hand carts, bullock carts and tangas (horse carriages). The service cost its customers around 2 annas (12 paise). Over the years, this evolved into a complex network of delivery; and in their peak days in 1955, the *dabbawallas* were delivering close to 2 lakh tiffins per day.

The core factor that has sustained this business model is the desire of the average middle-class Mumbaikar to eat home-made food. The *dabba* or aluminium box consists of discrete compartments which hold rice, roti, dal, curd, etc.—the staple diet of most North Indians. Eating out of the *dabba* comes closer than anything else to the feeling of eating at home.

* *Dabbawallas*—The term stands for door-to-door tiffin carriers in local language.
** A case prepared by A Krishna Pillai, Amit Kumar, Amit Thomas, Priyesh Pandey, Y P Ramprasad. Based on published material about the Mumbai *dabbawallas*.

The second important factor is the highly evolved transportation system in Mumbai. Mumbai's suburban electric trains and BEST buses efficiently connect disparate and far flung regions of Mumbai making the food delivery system a viable model.

The above factors are coupled with the fact that the *dabbawallas* charge a pittance for their delivery—the charge (in the year 2001) is around Rs 200 for an entire month. This is far less than what it would cost for a person to eat in hotels or other eateries. Thus, healthy, home-made food delivered at a highly competitive rate made the *dabbawalla* business an unbeatable model—at least till the late 1990s.

The Modus Operandi—'Fast' Food

The *dabbawalla* delivery network runs on the principle of a relay system. The *dabbas* are passed on from one *dabbawalla* to another, with sometimes the lunch boxes changing hands upto 4 or 5 times before finally reaching the customer.

The entire network is divided into clusters of roughly 20 men. The process begins with the first group picking up the aluminium boxes from homes or a central kitchen. Depending upon the distance to be covered, *dabbas* are collected from these places between 8 and 9 in the morning. Each *dabbawalla* covers roughly 20 houses. Covering these many houses quickly is not easy in a city like Mumbai. The heat during summer and waterlogged roads during the monsoons, with the peak-hour traffic thrown in, make reaching each home the toughest part of the process. At each *dabba* receiving point, the *dabbawalla* has to park his cycle at the gate, go to the client's house, which in Mumbai would invariably be a flat in a multi-storied building, collect the lunch and then come down again.

These *dabbas* are then carried off to railway stations on bicycles where they are loaded on to the specified local train. A second set of compartments unload them at the local stations like Andheri or Churchoate.

The third set of carriers waiting at the respective stations sort out and assemble the *dabbas*. The sorting

process is done errorlessly—thousands or tens are sorted in a matter of minutes—thanks to an efficient, evolved coding system (see box below). This sorting process is repeated across many stations for area-wise distribution.

The Coding System

Each lunch box/*dabba* has marked on it a circle of a specific colour and an identity number—for example 'K-BO-10-19/A/15'—where K is the identity letter of the *Dabbawalla*, BO stands for the area from where the lunch box is to be collected. (Berawal), the number 10 refers to a more specific locality like Nariman point area and 19/A/15 refers to the 19th building and the 15th floor in Nariman point area where the box is to be delivered.

At each station, after the sorting is finished, hundreds of *dabbawallas* pour out of the railway stations with long wooden crates packed with the sorted-out lunch boxes. These are in turn handed over to the huge number of waiting delivery persons who set off on their bicycles to offices across the city.

The lunch boxes reach their respective destinations between 11:45 a.m. and 12:30 p.m. covering the journey from start to finish in a matter of about 4 hours.

After lunch hour is over, the entire process is repeated in reverse. The *dabbawallas* again visit the workplaces in the afternoon to collect the empty tiffins and deliver them to the stations where train-wise sorting is done and the *dabbas* are loaded on to the respective trains. The local carriers at the suburban stations collect them, sort them out and proceed to deliver the empty tiffins back to the residences.

The *dabbawallas* work 12 hours a day, year round—in the sweltering heat of May and the drenching monsoon of June, July & August. They cycle distances of up to 15 kms in the city, and push rickshaws stacked with tiffin-carriers through the chaos of Mumbai's traffic jammed streets always delivering on time.

As is obvious, the entire system depends on teamwork and meticulous timing. In the words of a *dabbawalla*, 'Once you have the boxes with you, you can't even stop 10 minutes to the toilet because if you're late by even five or 10 minutes the chain gets disrupted.'

So integral have the *dabbawallas* become to Mumbai's way of life that the railways have given them a special reserved compartment next to the guard's cabin on certain suburban trains.

From Delivery Boys to Management Gurus

What makes the entire process amazing is the astonishingly low level of mistakes the *dabbawallas* make despite the fact that most of these persons are semi-literate and illiterate.

In spite of the complexity and sheer volume of the business, the 5,000 *dabbawallas* make a mistake only about once in every two months—which works out to one error in every 8 million deliveries, or 16 million if the return trip is included. 'If we made 10 mistakes a month, no one would use our service,' says a *dabbawalla*. It is accuracy generated by sheer necessity.

The *dabbawallas* became world famous when a few years ago US business magazine *Forbes* gave them a 6 Sigma performance rating, or a 99.999999 percentage of correctness—which technically means one error in every six million transactions. The *dabbawallas*, in reality, with one mistake in 16 million deliveries, are even better than the 6 Sigma standards.

The *dabbawallas* now routinely deliver talks to high-flying corporates and B-school students on teamwork and how they 'manage operational hurdles and still sustain quality.'

The Genesis of the Company

Till 2004, the *dabbawallas* of Mumbai functioned as a loose and unorganised association of people. Each *dabbawalla* would charge about Rs 200 per person per month. After paying the Western Railway for transport, the rest would go to the *dabbawalla*.

The *dabbawallas* had an association called the Mumbai Tiffinmen's Association where each would make a contribution of Rs 10 per month. The Rs 50,000/- collected would, after meeting minimal administration expenses, go towards charitable causes like feeding the poor.

The Decline

Despite their efficiency and promptness, there was a gradual decline in numbers in the business of the *dabbawallas*. This was due to a combination of factors.

The problem started in the 1960s when bank employees had a change in office timings and began leaving home earlier than before. The large-scale closure of textile

mills in the 1980s deprived the dabbawallas of one of their largest customer segment—the mill workers.

Towards the 90s, fast food chains and roadside quick-bite restaurants in and around office localities started to take their toll. Added to this was the rising trend of women themselves going off to work. The post-liberalisation offices and workplaces also tended to have good quality canteens and food courts obviating the need for food to be sent from home.

The Company

In view of the above dangers to their business, the dabbawallas, nearly 125 years after they came into existence, decided to organise themselves into an organised business—and thus was born The Anapooona Dabbawalla Company Ltd. (ADCO). Largely inspired by the co-operative model of the Gujarat Co-operative Milk Marketing Federation (GCMMF), it was essentially a company that belonged to every single dabbawalla.

The purpose of organising themselves into a company was twofold. It gave them increased bargaining power

and ensured the existence of a social security/pension-like pooling of funds for the dabbawallas when they retired from work.

A third and most important reason was the dabbawallas' ambitious plans to branch out into other cities of India. The dabbawallas reasoned that in cities across India there would exist prospective clientele who would still prefer home-made food and they hoped to capitalise on this.

Appendix 1.1 Prospective Markets for Dabbawallas: A Study Based on Demographic Details of Navi Mumbai

The appendix provides a snapshot of various demographic details of Navi Mumbai, an emerging locality of Mumbai. An observation of these trends would give a general idea of the shifts and evolution of existing and prospective markets of the dabbawallas.

Figure 1.3 Percentage Distribution of Working Population of Navi Mumbai by type of Occupation (1991—92)

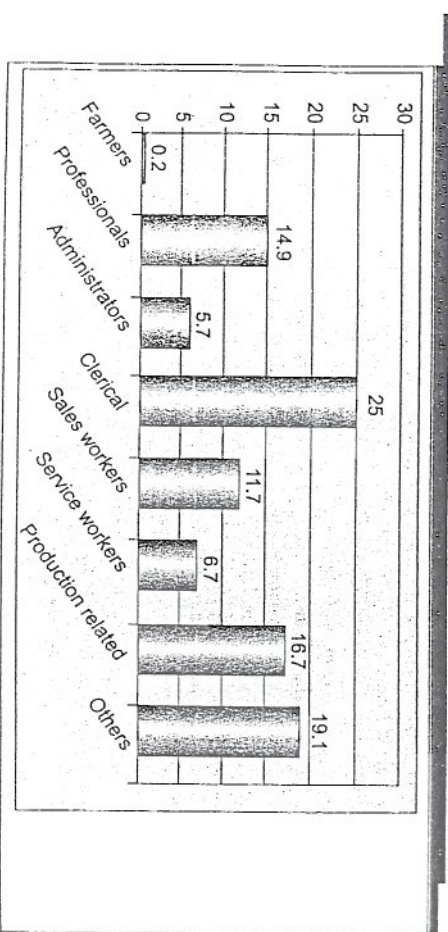


Figure 1.4 Percentage Distribution of Working Population of Navi Mumbai by type of Occupation

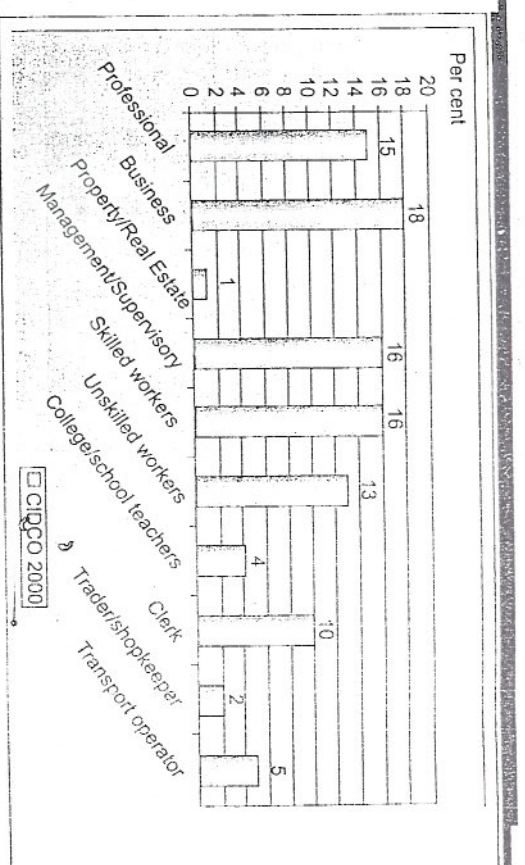


Figure 1.5 Location of Workplace for Navi Mumbai's Working Population

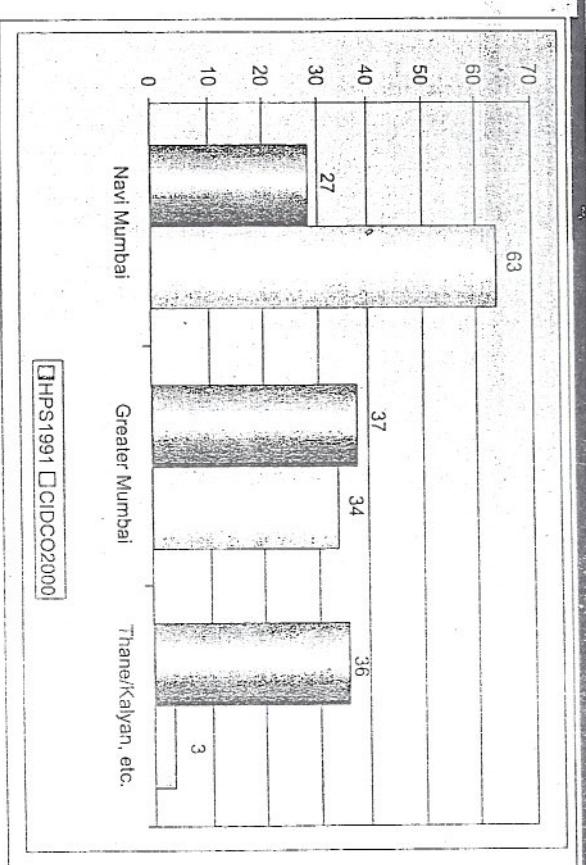


Figure 1.6 Main Mode of Transportation for Working Population in Navi Mumbai

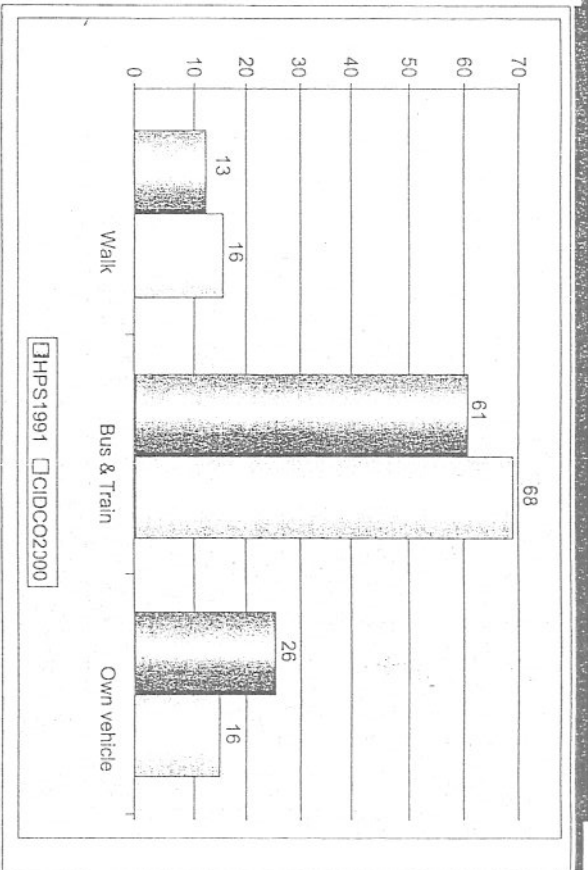


Figure 1.7 Migration to Navi Mumbai—Reasons

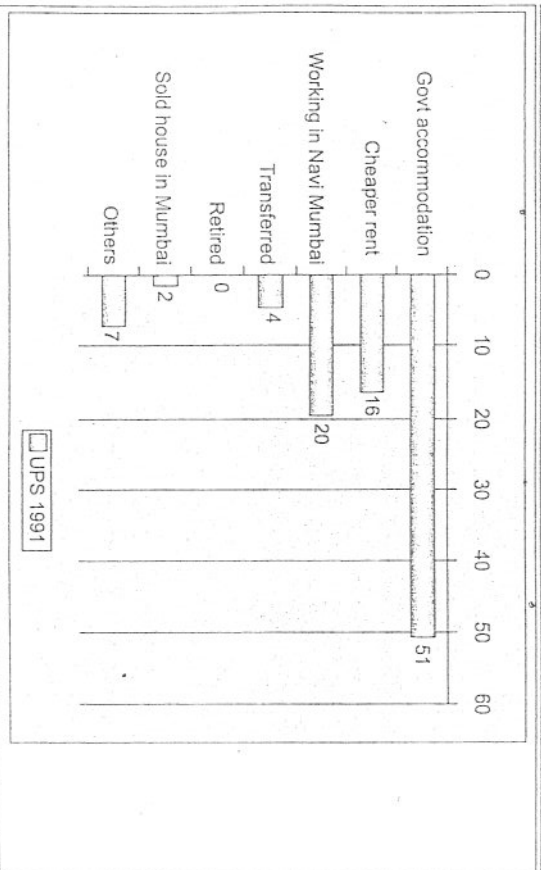


Figure 1.8 Reasons for Shifting to Navi Mumbai

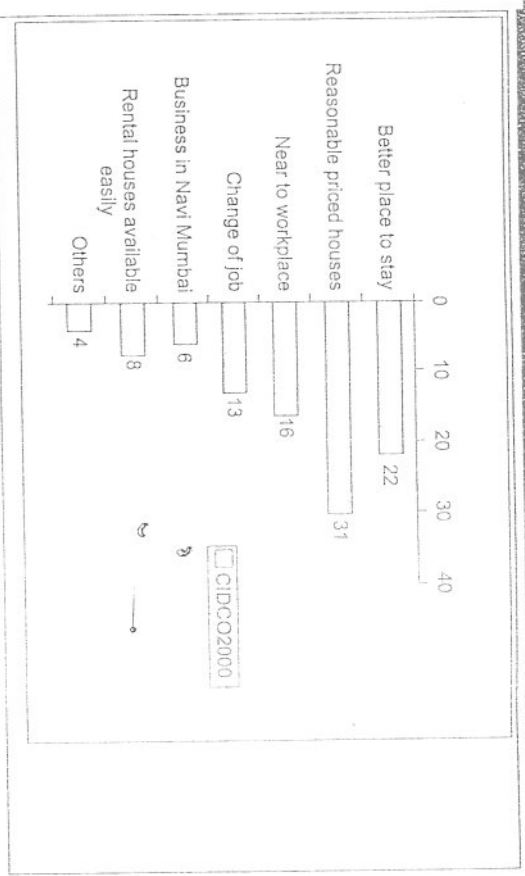


Figure 1.9 Types of Shops

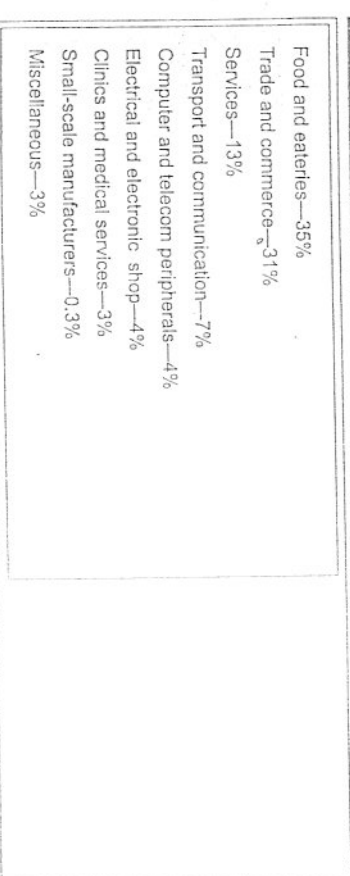
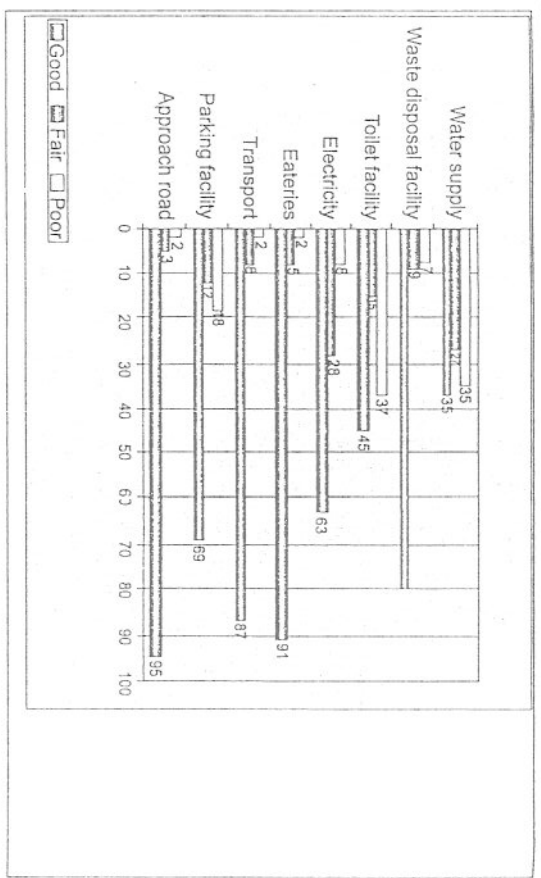


Figure 1.10 Perception of Shopkeepers about Different Facilities Available in Navi Mumbai



References

Demographic Scenario of Navi Mumbai
 Lecture by Prof. Kamla Gupta, Head, Dept. of Migration & Urban Studies for Population Day, 11th July 2003,
 International Institute for Population Sciences, Mumbai.



90/100

INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE
Kunnamangalam, Kozhikode, Kerala-673 570
EXECUTIVE POSTGRADUATE PROGRAMMES
eEPF-03 / ePGP-02, November 2011

*Financial Markets and Issues in Fund Raising
End-Term Examination*

Closed book Examination

TOTAL HOURS: 2

TOTAL MARKS: 50

PART A : OBJECTIVE TYPE. ANSWER ALL QUESTIONS (15*1 = 15 MARKS)

47/50

- (1) SEBI doesn't regulate the following entity:
 - (a) Merchant Banker
 - (b) Registrar and transfer agent (RTA)
 - (c) Insurance company
 - (d) Venture capital fund
- (2) Which of the following statement is false
 - (a) SEBI act was passed in 1992
 - (b) IPO pricing requires CCI approval (controller of capital issues)
 - (c) Foreign institutional investors are allowed to trade in India
- (3) SEBI roles & responsibilities – which of the following statement is false
 - (a) Protect the interest of investors in securities
 - (b) Promote and regulate self-regulatory organisations
 - (c) Prohibit insider trading in securities
 - (d) Monitor Commercial Banks
- (4) The right mode of fund raising in the pioneering /start up stage is
 - (a) IPO – Initial public offer
 - (b) FPO – Follow on public offer
 - (c) Venture capital
 - (d) GDR / ADR
- (5) IDR (Indian Depository Receipt) is an instrument
 - (a) Which is offered outside India by an Indian Company
 - (b) Which is offered to Indian investors by a foreign company
 - (c) Which is offered to Indian investors by a company listed in India
- (6) Company wishing to raise money through IPO
 - (a) Should fulfil SEBI eligibility criteria
 - (b) Should fulfil Stock Exchange listing criteria
 - (c) Both
- (7) To fulfil SEBI eligibility criteria for making an IPO the issuer should fulfil the following conditions (i) Minimum networth of Rs.3 Crs (iii) Net tangible asset of Rs.1 Cr.
 - (a) True
 - (b) False

- (8) Offer document should be filed with SEBI
- 30 days before filing with ROC
 - 21 days before filing with ROC
 - 30 days before filing with the Stock Exchange
- (9) In a Compulsory book build issue, ratio of allocation of the issue is
- 35% to retail investor, 15% to non retail investor and 50% to QIB
 - 25% to retail investor, 15% to non retail investor and 60% to QIB
 - 30% to retail investor, 10% to non retail investor and 60% to QIB
- (10) What portion of the QIB can be reserved for anchor investor
- 10%
 - 30%
 - 25%
- (11) State if the following statement is true or false: Venture Capital is a subset of Private equity
- True
 - False
- (12) Domestic venture capital funds are registered with
- SEBI
 - RBI
 - Government of India
- (13) Minimum amount an investor should contribute to Domestic Venture capital fund is
- 1 lakh
 - 2 lakhs
 - 5 lakhs
 - 50 lakhs
- (14) Registration of Foreign Venture Capital fund is
- Mandatory
 - Optional
- (15) State which of the following statement is false
- A company in which a PE fund invests cannot make an IPO
 - PE funding takes approximately 2-3 months
 - PE funds demand a place on the Board of directors

PART B : GIVE SHORT RESPONSES. ANSWER ANY 5 QUESTIONS (5*3 = 15 MARKS)

- What are the various instruments through which capital can be raised?
- What are the suitable method of capital raising for each of the following phases of a corporate entity – Early stage, growth stage, stabilisation/consolidation stage
- ✓ Explain what is a Private Limited Company and what is a public limited company
- ✓ What are the different categories of investors – briefly explain each category
- ✓ What is an FCCB?
- ✓ What is a GDR/IDR?
- ✓ What are the benefits of ADR/GDR issue for the investor and the issuer?
- What is the pricing rule for preferential issue?

PART C : WRITE DETAILED RESPONSES. ANSWER ANY 2 QUESTIONS (2*10=20 MARKS)

1. Give detailed write up for making an Initial Public Offering (IPO) in terms of eligibility of corporate, process flow and regulations to be fulfilled.
- ✓ 2. Describe the process flow and regulations for Indian Depository Receipt (IDR)
3. Describe preferential issue process and Qualified Institutional Placement (QIP). Identify the differences between these 2 types of issues.
- ✓ 4. Describe Private Equity and Venture Capital investment process flow. Compare Private Equity and IPO funding and describe the advantages and disadvantages between these 2 modes of fund raising.



INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE
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EXECUTIVE POSTGRADUATE PROGRAMMES
eEPF-03 / ePGP-02, December 2011

Strategic Cost Management
End-Term Examination

Open Book Exam

Duration: 3 Hours

Max. Marks: 60

52

Instructions:

- 1) Write your name and roll number on the answer sheet.
- 2) You have **three hours** for the exam.
- 3) You may use a calculator during the exam, but NO laptop please. You are also permitted to use both **the lecture notes and the textbook**.
- 4) Show your work for each question. The logic underlying your analysis is more important than the final answer.
- 5) Maximum Marks 60.
- 6) Good luck!

PART A

The following section consists of ten multiple choice questions. Please choose the correct answer and write your choice. Each Question carries one mark.

1. Which of the following is an example of an internal failure cost?
 - a. Replacement cost
 - b. Product recall cost
 - c. Loss of customer goodwill
 - d. Cost to handle customer complaints
 - e. Rework and scrap costs

Answer Questions 2,3 and 4 after considering the following situation:

Galaxy Company has 10,000 obsolete lamps carried in inventory at a cost of \$12 each. They can be sold as they are for \$4 each. They can be reworked, however, at a total cost of \$55,000 and sold for \$10 each.

120,000
55,000

120,000
55,000
175,000

40,000

55,000
155,000

175,000

75,000

2. For the decision making purpose, the cost of obsolete inventory Rs. 1,20,000 (10,000 units @ Rs.12 each) is:
- an opportunity cost
 - a sunk cost
 - a relevant cost
 - a differential cost
3. Which is the best alternative for the company?
- Selling the inventory as they are for \$4 each
 - Reworking the inventory at a total cost of \$55,000 and selling it for \$ 10 each.
4. What is the incremental contribution (ie., profit) of the best alternative you have chosen in question 1 compared to the other alternative?
- \$80,000
 - \$65,000
 - \$5,000
 - \$20,000
5. Listed below are the selected items from the cost-of-quality (COQ) report for Omega Corporation:

Rework	\$725
Equipment maintenance	1,154
Product testing	786
Field-service costs	560
Spoilage	459
Product recall cost	780
Product repair	695

What is Omega Corporation's total prevention and appraisal cost for the month?

- \$1,940
- \$1,184

c. \$2,035

d. \$\$3,219

6. Taurus Limited manufactures a product X for which the following data are available:

Selling price per unit	Rs. 150
Variable cost per unit	Rs. 50
Fixed costs	Rs. 1,80,000
Sales (Units)	5,25,000

What is the break-even point in Rupees?

a. Rs. 1,70,000

b. Rs. 3,25,000

c. Rs. 2,25,000

d. Rs. 2,70,000

7. Roche Limited is planning to introduce a new product. Market research shows that the customers are willing to pay Rs. 1000 per unit for the product. The company desires a profit margin of 20% on selling price. The product development and engineering department has come out with a projected cost of Rs. 825 per unit for the product. What is the target cost gap for this product?

a. Rs. 50

b. Rs. 25

c. Rs. 10

d. Rs.100

Answer Questions 8 and 9 after considering the following situation:

SKF Limited produces two products, Product A and Product B. Both products are produced by the same equipment. For the coming period 64,000 machine hours are available Management is trying to decide on the quantities of each product to produce. The following data are available:

	Product A	Product B
Machine hours per unit	1.60	0.80
Units selling price	\$4.00	\$4.80

Unit variable cost	\$2.40	\$3.60
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8. What would be the optimal product mix (number of units of each product to be produced in order to maximize the contribution) for the company?
- a. 0 units of Product A and 80,000 units of Product B
 - b. 40,000 units of Product A and 0 units of Product B
 - c. 20,000 units of Product A and 40,000 Units of Product B
 - d. 30,000 units of Product A and 15,000 units of Product B
9. What is the total contribution margin earned by this optimal mix?
- a. \$ 80,000
 - b. \$ 64,000
 - c. \$96,000
 - d. \$76,000
10. The contribution per unit of a product **does not** depend upon
- a. Selling price
 - b. Direct material cost
 - c. Fixed cost
 - d. Direct labour
 - e. Direct expenses

(10 x 1 = 10 marks)

PART B

There are **five** questions in this part. Please answer all questions. Each question carries 10 marks.

Question 1

Friendly bank is developing an activity-based cost system for its teller department. A task force has identified five different activities: (1) process deposits, (2) process withdrawals, (3) answer customer enquiries, (4) sell negotiable instruments, and (5) balance accounts. By tracing the costs of operating the teller department to these five activities, the task force has compiled the following information regarding support costs and activities for one of its suburban branches:

Support Activity	Estimated Cost	Activity Cost Driver	Quantity
Process deposits	\$29,630	Number of deposits processed	33,250
Process withdrawals	\$26,080	Number of withdrawals processed	22,750
Answer enquiries	\$24,860	Number of customer enquiries	45,000
Sell negotiable instruments	\$4,860	Number of negotiable instruments sold	1,100
Balance accounts	\$4,290	Number of accounts balanced	1,300
Total	\$89,720		

- a) Compute the activity cost driver rates for each of the support activities.
- b) The task force has developed the following list of activities for a typical checking account marketed to retired persons:

Support Activity	Average Monthly Volume
Process deposits	2.3
Process withdrawals	6.0
Answer customer enquiries	2.1
Sell negotiable instruments	0.5

Estimate the total monthly support costs for this checking account product.

(10 marks)

✓ Question 2

Olympus Corporation has an aggressive R & D program and uses target costing to aid in the final decision to release new products to production. A new product is being evaluated. Market research has surveyed the potential market for this product and believes that its unique features will generate a total demand of 50,000 units at an average price of \$230. Design and production engineering departments have performed a value analysis of the product and have determined that the total cost for the various value chain functions using the existing process technology are as follows:

Value-Chain Function	Total Cost over Product Life
	\$
Research and Development	15,00,000
Design	7,50,000
Manufacturing	50,00,000
Marketing	8,00,000
Distribution	14,00,000
Customer Service	<u>7,50,000</u>
Total Cost over Product Life	<u>1,02,00,000</u>

Management has a target profit percentage of 20% of sales. Production engineering indicates that new process technology can reduce the manufacturing cost by 40%, but it will cost \$10,00,000.

1. Assuming the existing process technology is used, should the new product be released to production? Explain
2. Assuming the new process technology is purchased, should the new product be released to production? Explain.

(10 marks)

✓ Question 3

The management of BMW AG is trying to decide whether the company should continue to manufacture an engine component or purchase it from Frankfurt Corporation for 50 Euros each. Demand for the coming year is expected to be the same as for the current year, 4,000 units. The budgeted manufacturing cost for the component is as follows:

	Euro
Direct material	14
Direct labour (4 hours at Euro 3 per hour)	12
Variable overhead (4 hours at Euro 2 per hour)	8
Fixed overhead (4 hours at Euro 5 per hour)	<u>20</u>
Total cost per unit	<u>54</u>

Required:

- (a) Considering cost criteria only, advise management whether the above component should be purchased from Frankfurt Corporation.
- (b) Explain how your above advice would be affected by each of the two *separate* situations shown below:
- (i) As a result of recent government legislation if BMW continues to manufacture this component the company will incur additional inspection and testing expenses of Euro 56,000 per annum, which is not included in the above budgeted manufacturing cost.
- (ii) Additional labour cannot be recruited and if the above component is not manufactured by BMW, the direct labour released will be employed in increasing the production of an existing product which is sold for Euro 90 and which has a budgeted manufacturing cost as follows:

	Euro
Direct material	10
Direct labour (8 hours at Euro 3 per hour)	24
Variable overhead (8 hours at Euro 2 per hour)	16
Fixed overhead (8 hours at Euro 5 per hour)	<u>40</u>
Total cost per unit	<u>90</u>

(Hint: Determine the contribution per labour hour of this product and the opportunity foregone by not manufacturing this product).

All calculations should be shown.

(10 marks)

Question 4

Athena Incorporated makes two products, Venus and Hermes. Its machines can only work on one product at a time. The two products are worked on in two departments by differing grades of labour. The labour requirements for the two products are as follows:

	Minutes per unit of product	
	Venus	Hermes
Department 1	12	16

Department 2

20

15

There is currently a shortage of labour and the maximum time available each day in Departments 1 and 2 are 480 minutes and 840 minutes, respectively. The current selling prices and costs for the two products are shown below:

	Venus	Hermes
	\$ per unit	\$ per unit
Selling price	50.00	65.00
Direct materials	10.00	15.00
Direct labour	10.40	6.20
Variable overheads	6.40	9.20
Fixed overheads	<u>12.80</u>	<u>18.40</u>
Profit per unit	<u>10.40</u>	<u>16.20</u>

As part of the budget-setting process, Athena Incorporated needs to know the optimum output levels. All output is sold.

- Calculate the maximum number of each product that could be produced each day, and identify the limiting factor/bottleneck
- Using traditional contribution analysis, calculate the 'profit-maximising' output each day, and the contribution at this level of output
- Using the throughput approach, calculate the 'throughput-maximising' output each day and the throughput contribution' at this level of output.

(10 marks)

Question 5

Zeus Limited makes and sells a labour-intensive product. Its labour force has a learning rate of 80% applicable only to direct labour and not to variable overhead.

The cost per unit of the **first product** is as follows:

	Rs.
Direct material	10,000
Direct labour (2000 hours @ Rs.4 per hour)	8,000

Variable overhead	<u>2,000</u>
Total variable cost	<u>20,000</u>

Zeus has received an order from Helios Limited for 4 units of the product. Another customer, Orion Limited is also interested in purchasing 4 units of the product. Zeus Limited has the capacity to fulfil **both** the orders. Orion Limited presently purchases this product in the market for Rs.17,200 and is willing to pay this price per unit of Zeus's product. But Helios Limited lets Zeus choose **one of the following options**:

- (i) A price of Rs.16,500 per unit for the 4 units it proposes to buy from Zeus

Or

- (ii) Supply Helios Limited's idle labour force to Zeus, for only 4 units of production, with Zeus having to pay only Re. 1 per labour hour to Helios's workers. Helios's workers will be withdrawn after the first 4 units are produced. In this case, Zeus need not use its labour for producing Helios's requirement. Helios Limited assures Zeus that its labour force also has a learning rate of 80%. In this option, Helios Limited offers to buy the product from Zeus at only Rs.14,000 per unit. (Helios workers are also working on the product for the first time).

Orion Limited and Helios Limited shall not know of each other's offer.

If both orders came before any work started, what is the best option that Zeus may choose? (Remember that Zeus has capacity to **fulfil both** orders and you are asked to state the **best option**).

Present suitable calculations in favour of your argument.

(10 marks)

Name & Roll No: _____

Signature of the Candidate: _____

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EXECUTIVE POSTGRADUATE PROGRAMMES
eEPF-03 / ePGP-02, November 2011

Strategic Financial Management

End Term Examination

Duration: 2 hours

Marks: 50

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Instructions:

1. This question paper (QP) contains TWO sections.
2. **Section I** deals with short questions and **Section II** deals with long questions
3. **Answer all the questions in the space provided in QP and submit the same for evaluation**
4. It is an open book exam. You should only carry the course text book i.e. "Financial Markets and Corporate Strategy by Mark Grinblatt & Sheridan Titman" and reading material provided by IIMK
5. You are *allowed to carry the calculator to the examination hall.*
6. Neat presentation will be rewarded

Section I – Short Answer Questions - Marks: 25

Question 1 Briefly answer all the TEN questions (10 X 2 =20)

1. Stock based and earnings based executive compensation

Name & Roll No: _____

2. Adverse selection problem

3. What are the key characteristics of Lintner's model of dividend decisions?

4. Pecking order theory of finance

Name & Roll No: _____

5. Why companies raise capital using a hybrid security like convertible debt rather than a straight debt?

6. Define Spin-offs and Carve outs – give examples

7. Does inflation affect the capital structure decision for different firms, explain.

Name & Roll No: _____

8. Capital Asset Pricing Model

9. Compute the interest rate to be charged on the loan affected by the potential bankruptcy costs, given that Mega mart plan to borrow Rs. 3 million for one year. There is 80% probability that the loan will be repaid in full and a 20% probability that the firm will be bankrupt at the end of one year. In such event, the Cos assets can be sold for Rs 0.6 million and incur Rs. 0.1 million towards legal costs. Assume that the Co earns on average 10%?

10. Explain that 'debt brings discipline to the businesses'.

Name & Roll No: _____

Question 2 Tick the correct answer for the following FIVE questions. *Multiple ticks will not evaluated (5 X 1 =5)*

1. “Unprofitable firms are likely to experience increased equity values and thus lower leverage ratios”

- TRUE - FALSE

2. The value of interest tax shield benefit on a perpetual debt as computed by multiplying tax rate with debt amount is called PVITS.

- TRUE - FALSE

3. If corporate tax is 10%, personal tax on equity is 10 percent and personal tax on debt is 50%, what is the tax advantage per rupee of debt i.e. tax gain “g”?

- Answer ‘g’ _____

4. According to conflict of interest between equity and debt holders, small firms should exhibit lower debt ratios”.

- TRUE - FALSE

5. “High MV/DV firms are likely to attract investors who are less interested in dividends

- TRUE - FALSE

Name & Roll No: _____

Section II – Long Answer Questions - Marks: 25 (5X5=25)

1. What is EVA and briefly explain the utility of the same?

Name & Roll No: _____

2. What is financial distress and explain, in detail, for which type of firms the financial distress is costly. Give suitable examples.

Name & Roll No: _____

3. The expected return of the Nifty 100, which you can assume is the tangency portfolio, is 16 percent and has a standard deviation of 25 percent per year. The expected return of Wipro is not known, but it has a standard deviation of 20 percent per year and a covariance with the Nifty 100 of 0.10. If the risk-free rate is 6 percent per year.
 - a. What is Wipro's beta
 - b. What is Wipro's expected return given the beta computed in 'a'?
 - c. If Silksoft has half the expected return of Wipro, what is Silksoft's beta?
 - d. What is the beta of the portfolio? If the weights are given as below
0.25 in Wipro; 0.10 in Silksoft; 0.75 in the Nifty 100; -0.20 in Tata Motors (where $\beta = 0.8$); and 0.10 in the risk-free asset
 - e. What is the expected return of the portfolio in part d?

Name & Roll No: _____

4. Explain the difference between direct and indirect bankruptcy costs? Who bears these costs? Explain in detail with suitable examples?

Name & Roll No: _____

5. What is financial policies and goals framework? Briefly explain the constraints of such framework with suitable examples?

"Wish you all the best"