MOCK TEST PAPER - MARCH, 2022

Dear Student Friends,

As usual, most of the questions are repetitive in nature with just a change in Company's name. Hence, to avoid the duplication of work, I have excluded the repeat questions and included only new questions with answers here.

Summary of March, 2022 - Mock Test Paper

MTP Q. No.	Reference of similar Question from our classroom notes
1	It is a new question, hence it is covered below with answer
2	Covered in Version 4 Classroom Notes / Volume III / Q.14/90
3	It is a new question, hence it is covered below with answer
4(a)(i)	Covered in Version 4 Classroom Notes / Volume III / Q.13/66
4(a)(ii)	Covered in Version 4 Classroom Notes / Volume I / Q.50/215
4(b)	Covered in Version 4 Classroom Notes / Volume II / Q.21/105
5(a)	Covered in Version 4 Classroom Notes / Volume I / Q.8/34
5(b)	Covered in Version 4 Classroom Notes / Volume IV / Q.4/94
6(a)	Covered in Version 4 Classroom Notes / Volume I / Q.18/252 [Figures are doubled]
6(b)	Covered in Version 4 Classroom Notes / Volume II / Q.52/244

Question 1 : [20 Marks]

Connaught P Restaurant Limited (CRPL) owns a chain of eating joints, drive through, and restaurants in the northern part of the country, that offer varieties of burger and allied or complementary stuff. CRPL is interested in gaining some space in south Indian cuisine restaurants (especially those located at places other than the southern region), hence looking forward to acquiring a chain of food restaurants that offer South Indian Cuisine with a reasonable presence. After analysis of the various prospects and alternatives, the board of CRPL identified three options Sankalpa, Ratan Sagar, and Anandam G.

Sankalpa offers south Indian cuisine with a presence in the states of Gujarat, MP, Rajasthan, Chhattisgarh, Maharashtra, and Karnataka apart from few overseas restaurants in the US, Canada, England, UAE, Australia, and New Zealand. Famous and record holder for their longest Dosa. Restaurant managers are given autonomy in decision-making. The manager decides from whom to purchase and on what terms, also makes the marketing plans and decides the prices of the products. Compensation to managers includes the performance-linked pay (equally split into cash benefits and stock options). Significant flexibility behaves like a double-edged sword, managers enters into the trap of price war with other Sankalpa restaurants operating in the same region (or nearby region). Managers suggest the expansion that can be done in their respective restaurants and plays a pivotal role in investment decision too. Even the restaurants can have names of their choice but they must carry the word Sankalpa and carry a logo for identification.

Ratan Sagar is a chain of authentic South Indian cuisine restaurants across the states of Punjab, Himachal, Haryana, Assam, Uttarakhand and UP. Restaurants will have the common name 'Ratan Sagar' only and likely ambiance. Restaurant managers are free to take pricing and operational decisions, considering the guidelines prescribed by the corporate office, to ensure the smooth running of the restaurant. Managers are responsible to meet the budgeted allocations. The corporate office solely takes investment decisions.

Anandam G is a small chain of South Indian food restaurants in the NCR, the purchase for all the restaurants is done by the central office. Managers have to follow strict guidelines for all aspects of restaurants in an attempt to maintain uniformity across the locations. Managers are responsible to meet the cost budget allocated to them, prices are uniform in all the restaurants and decided by the corporate office. Evaluation of managers' performance will be done on the basis of achieving goals developed by the central office.

Board is considering Sankalpa as the best alternate, but thinking about goal congruence of objectives, hence yet to take the final call.

Required :

(i) DESCRIBE the authority structure in general. (2 marks)

(ii) ANALYSE the authority structure of Sankalpa, Ratan Sagar, and Anandam G (in terms of the delegation). (5 marks)

(iii) LIST the pros and cons of the structure prevailing in Sankalpa and also LIST factors affecting it. (3 marks)

(iv) DESCRIBE the responsibility centres (in brief). (2 marks)

(v) ANALYSE the nature of restaurants Sankalpa, Ratan Sagar, and Anandam G, as responsibility centre. (3 marks)

(vi) Considering the nature of Sankalpa, IDENTIFY two financial measures that can be used for performance evaluation of restaurant manager. (1 mark)

(vii) ADVISE the board, how goal congruence can be improved between CRPL and Sankalpa? (4 marks)

Solution 1 :

(i) Authority structure deals with the exercise of powers and its' delegation in the organisation. It considers the level at which decisions are made. There are two major classifications i.e. centralised authority and decentralised authority. In a centralised structure, the upper levels of an organisation's hierarchy retain the authority to make decisions. In a decentralised structure, the authority to make decisions is passed down to units and people at lower levels. The degree of decentralisation may vary from mild to extensive.

(ii) Sankalpa has a **completely decentralised structure** because the restaurant managers have complete autonomy in decision-making. The manager decides from whom to purchase and on what terms, also makes the marketing plans and decides the prices of the products; even the manager influences the investment decision too. Each restaurant act as independent units.

Ratan Sagar too has a **decentralised structure, but the degree of delegation of authority is** mild and far less than Sankalpa but quite high in comparison to Anandam G. The restaurant managers have limited autonomy. They can take operational decisions including pricing but within the four-corners of guidelines issued by the corporate office.

Anandam G has a **centralised structure** because restaurant managers hardly have any autonomy. Authority is exercised centrally at the corporate level only.

(iii) Sankalpa has completely decentralised structure. Decentralisation has its own pros and cons, the majors are :

Pros :

1. Senior management is free to concentrate on strategic planning & decision making (due to delegation of authority).
2. Better local decisions and greater responsiveness to local needs as well as opportunities (due to local expertise).
3. High motivation in restaurant manager (due to empowerment that comes from training or vesting of authority and feel of personal commitment).
4. Quicker responses and flexible decision making (due to smaller chain of organisation command).

Cons :

1. Loss of control by senior management.
2. Dysfunctional decisions or sub-optimisation (due to a lack of goal congruence).
3. Poor decision made by inexperienced managers.
4. Duplication of roles and efforts within the organisation.
5. Extra costs in obtaining information.

The **degree of decentralisation** may vary from mild to extensive. The factors that will affect the amount of decentralisation are -

1. Ability of management and employees
2. Management style
3. Geographical and Locational spread
4. Size of the organisation (scale of activities).

(iv) A responsibility centre is a specific unit of an organisation assigned to a manager who is held responsible for its operation and resources. Responsibility centres can be classified as -

1. **Cost Centres** are responsibility centres where the manager **has control over the costs** (other than those of capital nature) owning to function, for which he is responsible.
2. **Revenue Centres** are the responsibility centres where the manager **has control over the generation of revenue from operation** with no responsibility for costs.
3. **Profit Centres** are the responsibility centres where the manager of such a centre or division **has control on both revenue and costs** (other than those, which are of capital nature) earned out of and incurred on assets assigned to the division respectively.
4. **Investment Centres** are the responsibility centres where the manager has responsibility for not just the revenues and costs relating to the centre, but **also the assets that cause these costs and generate these revenues** and the investment decisions relating to disposal and acquisition of assets.

(v) **Sankalpa** restaurants seem to be an **investment centre** because the restaurant managers decide the factors which will result in cost and also makes the marketing plans as well as decide the prices of the products. The manager influences the investment decision too.

Ratan Sagar restaurants seem to be **profit centre** because managers who take a decision regarding the pricing are also responsible to meet the budgeted allocations. The corporate office solely takes investment decisions.

Anandam G restaurants seem to be **cost centre** because restaurant managers are responsible to meet the cost budget allocated to them.

(vi) Since the Sankalpa restaurants seem to be investment centre, hence the performance of restaurant managers shall be evaluated using financial measures such as **Return on Investment** or **Residual Income.**

(vii) CRPL shall consciously make efforts to reduce the cultural conflicts. It is important to recognise that restaurant managers at Sankalpa have full autonomy in making the decisions, hence to ensure successful post-merger integration of two organisation, management of CRPL need to modify the performance evaluation criteria as well as re-align (in the best interest of CRPL) the compensation structure.

CRPL must communicate restaurant managers that their suggestions are worth and valuable, but in order to attain goal congruence, it must be linked to the rewards and benefits with the collaborative goals (weighted, restaurant-specific and company-wide).

Alternatively, in order to avoid possible difficulties on account of cultural conflicts and post-merger integration, CRPL may operate the newly acquired restaurant chain independently from its own; keeping them separate and distinct existence.

Question 3 : [20 Marks]

Roadrunner is a trucking company that ships commercial goods for companies to various ports within the state of Gujarat. These ports facilitate further shipments of goods by sea to their final destinations. The company aims at maintaining good quality delivery standards to make its mark in the competitive environment it operates.

The entire shipment of the company is for deliveries from various destinations within the state to one of the ports. During the trucks' return journey, the company tries to have a shipment from the port to one of the major destinations within Gujarat. In trucking jargon, a truck on the road without carrying any load is called 'dead heading'. A trucking company will try to minimize the kilometres covered in a deadhead because it is unproductive. Therefore, the company has agents on the ground, who can find appropriate shipments within few days' time. This way the utility of the truck and productivity of each shipment journey improves.

All shipments thus for have been on "Full Truck Load" (FTL) shipments. This means, that the entire truck is booked for the shipment of goods of just one client. The goods collected from the client are delivered directly to the destination port. Advantages of FTL shipments are : minimum handling of goods, loading and unloading will be from that single vehicle and fast delivery of goods with minimum damage.

Due to low fuel prices, the company has been enjoying reasonable profits from this business. However, fuel prices have increased over the last few months. Due to economic slowdown, number of shipments have been stagnant for a while. There is a possibility of reduced size of shipments in the coming year. Therefore, the company plans to offer "Less than Truck Load" (LTL) shipments to many of its clients. Here, shipments by the clients will be larger than a parcel carrier can handle, but not enough to require an FTL shipment. Shipment loads from various clients will be collected at a common collection area. Shipments to common destination port will then be loaded onto a truck and delivered at that specific port. Typically a client is willing to wait for maximum 7 days from the time goods are handed over for delivery to the actual delivery at the port. The advantage of this type of shipment is that it facilitates smaller consignments to be shipped at economical cost to the company. This brings flexibility in operations to the business. At the same time due to smaller shipments, the clientele base has to increase so that when the truck leaves on a shipment journey its capacity is completely utilized.

This decision to introduce LTL shipments in addition to FTL shipments has been a strategic change for the business. At present, Roadrunner handles about 15% of the total consignments that are made from within Gujarat to the various ports. It wants to maintain and if possible grow its market share. However, competition is stiff in this sector. To get a larger clientele base, it has increased its advertisement spend to make its presence known in the market. Advertisement in specific trade publications, membership on trucking load boards that help to find clientele online, participating in trade association events etc. The company plans to target mid-sized companies as customers that can give shipment loads at regular intervals.

The senior management has targeted :

1. Cost-per-kilometer rate of ₹ 200.
2. Revenue per kilometer rate of ₹ 350.
3. Average Accounts Receivables collection period of 10 working days.
4. Average customer lifetime value : ₹ 20 lakhs and above. The target customer base would be mid-sized companies having shipments at regular intervals.

The senior management of the company has been focused only on the financials. However, they now acknowledge that other non-financial metrics also need to be tracked in order to sustain and improve the business. To assess the company's performance under the LTL system, below are some of the operational metrics that are proposed to be collated :

(a) Customer claims filed for damaged goods (absolute numbers and % of shipments made under the LTL system).

(b) Time taken to resolve the above claims (days from date of customer filing claim).

(c) Delays in delivery beyond the agreed delivery time (% of shipments made under the LTL system).

(d) Number of days truck was not on the road (due to maintenance or insufficient load).

(e) Average time taken to get full truck load under LTL (days).

(f) Deadheads (kilometers) : Kilometers during journeys when the truck had no load to carry.

(g) Number of orders turned down due to non-availability of trucks.

(h) Ability to deliver within 7 days from the date of receiving client's goods under the LTL system (% of shipments under the LTL system).

As a management consultant for the company, you plan to present the above information using the Performance Pyramid model as suggested by Lynch and Cross.

Required :

(i) IDENTIFY the Level 1 – Corporate Vision and Level 2 – Market and Financial measures that the company plans to follow to sustain business. Briefly EXPLAIN the rationale of the decisions taken at the Market and Financial business unit level. (4 Marks)

(ii) CLASSIFY the operational level (measures a to f) into Quality, Delivery, Cycle Time and Waste metrics. Also link them to the Level 3 measures of Customer Satisfaction, Flexibility and Productivity. (12 Marks)

(iii) Briefly ASSESS how measures (g) and (h) impact business. (4 Marks)

Solution 3 :

(i) Identification of Corporation Vision and Market and Financial measures for company's success.

Corporation Vision (Level 1) of Road runner is that "The company aims at maintaining good quality delivery standards to make its mark in the competitive environment it operates."

To increase its market share and enlarge its clientele base, the company plans to increase it advertisement spend to make its presence known in the market. It is resorting to off-line print media, online media as well as by participating in relevant trade association events. It has a target clientele of mid-sized companies that have shipments to make at regular intervals. As explained above, it has to track customer satisfaction of its service with relation to the quality and delivery of its service.

To maintain financial sustenance, the senior management has put in place metrics that will track if the LTL revenue is profitable. Difference between the revenue per kilometre and cost per kilometre would be the profit earned per kilometre. The target profit per kilometre = ₹ 350 - ₹ 200 = ₹ 150 per kilometer.

Also, the company is clear that it wants quick turnover of its accounts receivable. For getting credit worthy customers, it has targeted clientele whose customer lifetime value is at least ₹ 20 lakh or more. The presumption made is that these mid-sized companies are less likely to default on their bills. For quick turnover of its accounts receivable, it proposes to give a 10 day credit period to its client to settle the bill. Quick conversion of accounts receivable into cash helps maintain liquidity. This is important for Roadrunner to maintain since its costs of operations, especially fuel costs are going up. Also, during slowdown in the economy, the risk of default is higher. Therefore, quicker conversion of Accounts Receivable to cash is preferable for financial stability of the company.

(ii) Operational level measures and their link to customer satisfaction, flexibility and productivity :

The operations level measures can be classified as follows :

(a) Customer claims filed for damaged goods (absolute numbers and % of shipments made under the LTL system) - Quality of service. Incidents of such claims should be maintained at the very minimum to have good customer satisfaction.

(b) Time taken to resolve the above claims (days from date of customer filing claim) – Quality of service. Quick resolution of claims leads to better customer satisfaction.

(c) Delays in delivery beyond the agreed delivery time (% of shipments made under the LTL system) – Delivery of service. Incidents of such delays in delivery should be maintained at the very minimum to have good customer satisfaction.

(d) Number of days truck was not on the road (due to maintenance or insufficient load) - Waste of resource. Utilization of resources impacts productivity. Trucks have to be used efficiently in order to improve productivity.

(e) Average time taken to get full truck load under LTL (days) – Cycle time, i.e. time taken to complete the task. This should be kept at a minimum level to improve productivity. Faster the ability to fill up the truck, improves the utilization of resources and enhances productivity.

(f) Deadheads (Kilometers) i.e. Kilometers the truck is on the road with no load to carry – Waste of resource. When a truck runs on the road without any load, it incurs a cost but earns no revenue to recoup it. Therefore, the number of kilometer deadheads is a waste and should be kept at minimum.

(iii) Impact of measures (g) and (h) on business :

(a) Number of orders turned down due to non-availability of trucks – Flexibility of service. This metric has to be maintained at the very minimum. The business must be able to cater to as many orders as possible. Tracking this metric can indicate if the current capacity of trucks is sufficient to cater to the demand from customers.

(b) Ability to deliver within 7 days from the date of receiving client's goods under the LTL system (% of shipments under the LTL system) – Flexibility of service. It is given that under the LTL system on an average the client is willing to wait for maximum 7 days from the date of handing over goods until delivery. The ability to meet this expectation of the customer is very important to maintain and sustain business. Therefore, the company has to have sufficient capacity to cater to customers' expectation. It must have enough flexibility (capacity) in its operations to accommodate any exigencies to ensure that this expectation is met.

Concept Revision of Performance Pyramid :

The performance pyramid links business strategy to the day-to-day operations of a business. It gives a "top-to-bottom" overview of an organization. The top level is the strategic level, next comes the tactical level relating to business units and operating systems. The lower base levels are the operational levels.

Vision Statement (Level 1) defines the business strategy that the company wishes to have to achieve success and competitive advantage. The pyramid cascades the vision statement through strategies related to market growth and financial sustenance (Level 2). Market growth and financial sustenance are dependent on customer satisfaction, flexibility and productivity (Level 3). Level 3 measures are again dependent on operational factors such as quality, delivery, cycle time and waste.

Quality and Delivery are linked to Customer satisfaction and further to market growth, having external focus. These are non-financial in nature. Cycle time and waste, are linked to productivity and are linked further to financial sustenance having internal focus. These internal efficiency metrics are viewed for their financial impact on business. Flexibility serves as an enabler that can provide customer satisfaction. It can also be linked to productivity of operations. It is a factor that shows how agile is the business with respect to changes in business environment and competition.

Performance Pyramid is thus a pictorial representation in the shape of a pyramid representing the hierarchy of strategic, tactical and operational measures of the organization.

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