

THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/ PUBLIC
ADMINISTRATION
FINAL EXAMINATION- 2011
MCP 1653 STRATEGIC MANAGEMENT
DURATION: THREE (03) HOURS



DATE : 02.05.2011

TIME : 9.30 AM – 12.30 PM

INSTRUCTIONS:

- ANSWER ALL QUESTIONS IN PART 1 AND ANY THREE (03) QUESTIONS FROM PART 2.
- PLEASE BE PRECISE AND CLEAR IN YOUR ANSWERS. LACK OF CLARITY AND PRECISION AND ILLEGIBLE HAND WRITING MAY CAUSE LOSS OF MARKS

**Part 1
CASE STUDY**

Information Communication Services (Pvt) Limited

Wasantha Weerasinghe, Chairman and Managing Director of ICS (Pvt) Limited went through the highlights of the annual accounts of the company for 2010 once again. He was puzzled with what the balance sheet indicated. "This is just not possible" Weerasinghe told himself. As per the accounts the company had incurred a net loss of Rs. 3 million from the business operations during the past year. Though the gross profit indicated an improvement compared to the previous year, the net profit after making provision for tax and other liabilities indicated a negative figure. Weerasinghe also noted that there had been a gradual increase in operational and maintenance cost during the past three years. A significant share of this cost (about 15 per cent) was made up of the cost of utilities. The accounting highlights also indicated a drop in the liquidity ratio from 1.5 in 2009 to 0.80 in 2010 suggesting a decline in the cash flow. The gearing ratio further indicated that the extent of debt in relation to equity has gone up during the past year. An explanatory note inserted by the accountant attributed the increase in the gearing ratio to financial liabilities of the company on account of the bank loans obtained to finance the new five storied head office complex of ICS in Colombo 04.

Weerasinghe was deeply immersed in the accounting highlights document when his senior partner Nimal Perera walked in. "Sorry, I did not hear you were coming in" Weerasinghe said. "Why? Is there a problem that makes you look sick?" Perera asked. "No, I am all right. But these accounts worry me. You see, we have incurred a net loss of

Rs. 3million last year and our cash flow is bad. We have to somehow find the money to pay the bank loans” Weerasinghe lamented.

“Well, let us put our heads together and find a way to turn the situation around. I don’t think we are so bad compared to some of our competitors. I heard that Cornell Institute¹ had given notice of termination to several tutors as they find it difficult to maintain a full time staff” Perera said. Weerasinghe’s face brightened after listening to his colleague. “Nimal, I am wondering whether we are on the right track as yet. Once we were number one in the market as a provider of basic computer training for school leavers. Our Diploma in Computer Studies (DCS) was a real success and it was a cash cow for several years. Later we lost this market to the new comers. We have introduced many other programmes later on. But none of them reached the level of DCS in terms of contribution to the bottom line” Weerasinghe observed.

“OK, let me put it this way. I think its time that we address the issue of our future direction seriously” Perera paused for a while and continued, “Should we spend our energy in trying to run several different programmes in different locations in the country maintaining branch offices at a considerable cost? Or should we excel at running one or two good programmes like our B Sc in IT in collaboration with our foreign partners?” Weerasinghe did not have a ready answer to Perera’s question which appeared to be tough. He knew that Perera being a senior partner and director of ICS was pretty serious about the performance of the company. “Nimal your question is indeed important, but I do not have a direct answer. I guess our product portfolio is all right, but there may be lapses in management. Shall we have a luncheon meeting with other directors over the weekend to discuss this issue? Weerasinghe suggested.

The pioneering journey of ICS (Pvt) Limited

Wasantha Weerasinghe, formerly the IT manager of a leading Public Corporation, resigned his job in June 1994 with the intention of setting up his own company in the field of IT services. Weerasinghe, was a B Sc (Information Technology) graduate. He completed his MBA Degree in 1994 a few months before giving resignation to his former employer. Weerasinghe invested his gratuity and part of the provident fund in setting up of his new venture. The company started operations in a rented building at Colombo 04 where there was space to have two or three class rooms. This fitted Weerasinghe’s requirement well as he was planning to conduct courses in computer studies for different target groups including school leavers. After few months Weerasinghe invited his close friend and batch mate Nimal Perera to be a partner of the business. Nimal had a reputation as a trainer in IT. The Diploma in Computer Studies which was a brain child of Nimal Perera targeted the young school leavers interested in acquiring a basic knowledge of computing.

The company did not advertise the DCS programme in the media except at the initial stages. Nimal Perera, once said, “If you deliver a quality programme, you don’t have to

¹ Cornell Institute was one of the competitors of ICS (Pvt) Ltd. engaged in conducting ICT related training programmes targeting mainly the young school leavers.

advertise. Your students and their parents will do that job for you". Perera's statement appeared to be true as the demand for the DCS programme grew at an unprecedented level during the first two years since its introduction. Among the factors that influenced the demand for DCS was the desire among the middle class parents to give some sort of computer training to their children after sitting the GCE (OL) examination². Also, the non-availability of a comparable low cost short term training course in the private sector created a seamless market opportunity for ICS in the initial years. As the demand for DCS increased Weerasinghe took steps to recruit a few IT graduates as visiting lecturers paying them a handsome hourly rate. Due to increased demand for DCS in major cities, Weerasinghe and Perera jointly decided to expand the business to selected cities where there was demand for computer education.

Accordingly, branches of ICS were opened at Gampaha, Kandy, Kurunegala and Matara in rented premises. As it was difficult to coordinate branch level operations from Colombo action was taken to recruit Programme Coordinators from the area itself. The new recruits were either fresh graduates or diploma holders who did not have much experience in teaching IT or managing a business. The directors of the company did not have much time to visit the branch offices or undertake quality assurance work. It was therefore not unusual for the Chairman of ICS Ltd to receive written complaints from some parents about sudden cancellation of classes, poor conduct of examinations etc. which were not seriously inquired into by the Chairman or his partner Nimal Perera as both were busy with their respective jobs and professional commitments. However, realizing the possible impact of poor customer satisfaction on attraction of students, steps were taken by the Chairman to recruit a Programme Manager to be in charge of the DCS programme. Ms. Amali Wijekoon, the new Programme Manager settled down in her job quickly. To her credit the number of customer complaints came down during the first three months since Amali assumed duties. Being impressed with her performance, Weerasinghe added a monthly fuel allowance of Rs. 10,000 to Amali's salary.

Due to concerted efforts of the Chairman, ICS Ltd was able to establish an IT consultancy services unit targeting the private sector as well as donor funded projects in the public sector. Though the consultancy services had high profit margins the company had to compete with established firms to get projects. As IT consultancy projects did not ensure a continuous flow of income it was not feasible to recruit full time professional staff to handle only the consultancy projects. To overcome this limitation the company resorted to hire IT professionals on project basis. However, after some time the company realized that it was difficult to attract IT professionals with the right skills and experience to handle consultancy projects unless the company was prepared to share part of the profit with the part-time IT professionals who were in high demand in the market.

² Annually around 250,000 students sit the GCE (OL) Examination through the general education system in Sri Lanka. Of this number about 40 per cent live in urban and semi-urban areas. Also, a large number of students as a habit attend GCE (OL) and (AL) tuition classes. The highest concentration of students attending tuition classes was found in cities such as Colombo, Nugegoda, Gampaha, Kalutara, Galle, Matara, Kandy, Kurunegala and Ratnapura. On a rough estimate the number of students who were likely to follow basic computer classes in these cities was around 100,000.

Expansion of business in a rough terrain

Being a senior professional in the IT industry Weerasinghe was actively involved in promoting IT education in Sri Lanka through the Association of IT Professionals (SLAITP). He served the Executive Committee of the SLAITP for several years and developed a network of IT professionals. Weerasinghe initiated a dialogue with some of the IT professionals in the network regarding formation of a company for providing IT consultancy services. In a few months time Weerasinghe launched ICS Consultancy Services Limited as a strategic business unit linked to the ICS (Pvt) Limited. He invited two of his colleagues from the SLAITP to function as non-executive members of the board of directors of the new company. After establishment of the new SBU the Consultancy Services unit that functioned under the main company was absorbed by the ICS Consultancy Services Ltd along with four staff members comprising two Systems Analysts and two Programmers.

Though the ICS Consultancy Services Ltd. had a successful launch, Weerasinghe did not succeed in getting sufficient consultancy assignments during the first two years as the market for consultancy has already been dominated by a few leading IT firms which had foreign links. In reviewing the progress of ICS Consultancy Services Ltd, Mano Selvakumaran, one of the directors said, "We can not compete with the big actors for high end products because we do not have the capacity to bid for such products. It would be better if we could serve the low end of the market at comparatively low cost". Weerasinghe did not disagree with Selvakumaran. In response he said, "I know it is tough, but as an IT company we must compete. I want your help in building our capacity to compete".

Reflecting on the performance of his company since its inception Weerasinghe felt that the real turning point of ICS Ltd was the launch of the International Diploma in Computer Studies of NCC, UK and the Advanced Diploma in Computer Studies, which was the second stage of the International Diploma. These Diploma programmes enabled the company to have a competitive edge over other IT training institutes as the Diploma programme provided a career ladder for the students to earn a B Sc (IT) or B Sc (Computing and Information Systems) Degree of the London Metropolitan University. In pricing the Diploma and Degree programmes the Chairman and directors of ICS Ltd were careful not to exclude the Sri Lankan middle income category parents who were looking for opportunities for higher education for their children after GCE (OL) and (AL) examinations.

During the five year period 2000-05 the student population enrolled in the NCC International Diploma increased from about 100 to 700. The fact that the students who successfully completed the Diploma in Computer Studies of ICS with good passes in the GCE (OL) could enroll in the NCC International Diploma was a very good selling proposition. Under this scheme a large number of students enrolled in the NCC International Diploma without having to spend two more years in schools following the GCE (AL) classes. The pricing of the NCC International Diploma was also well within the middle class parents' capacity to pay. Thus, ICS Limited recorded a favorable cash

flow during the five year period. Weerasinghe also recruited a few full time instructors comprising of NCC Advanced Diploma holders and graduates to conduct classes according to a regular schedule in each of the branches of ICS.

Somewhere around 2005 another leading IT firm which enjoyed a good share of the IT consultancy services market launched the B Sc Degree programme of the London Metropolitan University ending the near monopoly enjoyed by ICS Limited in this line of business. At a progress review meeting of the senior management of ICS, Weerasinghe commented on the new development with some amount of anxiety. "Market is becoming more and more competitive. I don't think we can afford to relax. We got to be more aggressive and deliver a better service than our competitors" Weerasinghe suggested introducing a scholarship scheme as well for deserving students. He believed this initiative could help improve the company image and goodwill and thereby enhance the competitive capability of the company.

Weerasinghe's professional commitments as well as his decision to pursue a split Ph D in an Australian University left him little time to attend to day-to-day management of the business. The board therefore decided to create a Degree Division and appoint a full-time manager to run the NCC Diploma and the B Sc Degree programme. In the meantime Weerasinghe was able to forge a link with an Australian University to launch a Masters Degree programme in IT. Although the M Sc programme did not attract more than ten students initially it helped in positioning ICS Ltd as a leading provider of IT education in the country. In launching the M Sc programme Weerasinghe also considered the possibility of catering to the Maldivian market. Already about ten students from Maldives were enrolled in the B Sc Degree programme.

Limitation in physical capacity of the building in Colombo occupied by the company on a long term lease agreement was a major constraint that affected programme delivery. Crammed up class rooms, noises created by students waiting outside until their turn came to enter the class rooms were part of the daily life at the Colombo premises. Weerasinghe was determined to construct his own building to house all the programmes, a library, IT lab and the administration wing under one roof. He already owned a piece of land in Colombo 04. In 2008 Weerasinghe's dream of having his own building came true. However, the cost of the new building did not leave sufficient funds in ICS coffers to be invested in quality improvement of programmes, staff development and student welfare.

Competition becomes the name of the game

The entry of several new companies into the education market was indeed a challenge ICS Ltd had to face. Some of the new entrants such as Asia Pacific Institute of Information Technology (APIIT), Imperial Institute of Higher Education (IIHE) and American College of Business and Technology (ACBT) had franchise agreements with foreign universities to offer their degree programmes in Sri Lanka. The establishment of Sri Lanka Institute of Information Technology (SLIIT) as a public-private partnership project for offering IT education was hailed by the media as a significant milestone in Sri Lanka's IT education. It was known that SLIIT attracts about 5000 applicants for entry

level courses from among the youth who are not successful in getting a place in one of the state universities due to restriction of numbers. ICS Ltd. began to feel the effect of competition as student enrollments in the NCC Diploma and Degree programmes started to drop since 2006. The board of directors decided not to increase the course fees though there was a significant increase in overheads. Weerasinghe was worried that ICS was losing some of the trained instructors to his competitors. He did not see the possibility of increasing the staff salaries at least by 10 per cent in the foreseeable future.

1. Undertake a strategic analysis of ICS (Pvt.) Limited using the prescribed tools in Strategic Management literature. (20 marks)
2. Critically evaluate the business strategy followed by the top management of ICS (Pvt.) Limited and recommend with adequate justification an alternative strategy for the company. (20 marks)

Part 2: Theoretical Foundations in Strategic Management (Answer any three questions)

3. Explain using relevant examples the importance of *Resources, Capabilities* and *Core Competencies* of a firm in sustainable competitive advantage. (20 marks)
4. What is environmental analysis and why is it necessary to explore the environment, both internal and external, in strategy formulation? (20 marks)
5. How does business level strategy differ from corporate level strategy? Using the framework of generic strategies explain how a company engaged in manufacturing and export of apparels could achieve and sustain competitive advantage. (20 marks)
6. Discuss using appropriate examples how Porter's model of industry analysis could be applied in a business for effective strategy making. (20 marks)
7. Illustrate the value chain of a private sector health care provider and explain its strategic advantages in a competitive business environment. (20 marks)
8. How important is process and product innovation in achieving sustainable competitive advantage? Explain using national and global examples from business. (20 marks)

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