



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF MASTERS OF BUSINESS
ADMINISTRATION
2ND YEAR 1ST SEMESTER 2018/2019 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: MBA 853

COURSE TITLE: RISK MANAGEMENT & SUPPLY CHAIN VULNERABILITY

EXAM VENUE:

DATE: DECEMBER, 2018

EXAM SESSION:

TIME: 3 HOURS

INSTRUCTIONS:

- 1. Answer Question ONE (COMPULSORY) and ANY other 4 questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

Question One (Compulsory)

John is the Managing Director of FT Ltd. which makes specialized wood products for the construction industry. He has recently been worried by late deliveries to some important customers. The industry is very competitive, and John knows that customers will go to other suppliers if he cannot guarantee deliveries. The marketing manager is particularly upset because he has worked with these customers for a long time, and promised deliveries that were not made. John asked the production manager for an explanation. She told him, 'Our own suppliers were late in delivering certain types of wood. This shortage of a key raw material disrupted our production plans. We cannot be blamed for this, rather, it is the warehouse manager who does not keep enough stocks of raw materials to cover for late deliveries.' John then went to the warehouse manager to see what was happening. 'There can't be anything wrong here', he was told. 'Stocks have been climbing for the past year, and last month they were at an all-time high. Although this is a deliberate decision to improve service levels to production, stocks seem to have just drifted upwards. These high stocks are causing me problems with space, and are stretching my budget. I think that the blame lies in purchasing, who do not order the amounts that we request.' The purchasing manager explained to John, 'Let me remind you that eight months ago you instructed me to reduce materials costs. I am doing this by taking advantage of the discounts given by suppliers for larger orders. Often, I order more than requested under the assumption that we will need the material at some stage, so I get a discount and the material is already in stock when we need it. Sometimes keeping things in stock would take too much space or be too expensive, so then I might delay an order until I can combine it with others to get bigger discounts.' John then talked to the transport manager who was not so sure. 'It is much more efficient for me to bring larger quantities into the company', he said. 'If you reduce the average order size, the transport costs will rise. Our budget is already being squeezed, as we have to pay for expensive express deliveries of materials that production classifies as urgent. If you lower the order size, there will be more shortages, more express deliveries and even higher costs.' John talked to some major suppliers to see if they could somehow improve the flow of materials into the company. Unhappily, while he was talking to one company, they raised the question of late payments. This was contrary to FT Ltd.'s stated policy of immediate payment of invoices, so he asked the accounting section for an explanation. He was given the unwelcome news that 'The company's inventory and transport costs are so high that we are short of cash. We are delaying payments to improve our cash flow. As it is, we had to use a bank overdraft to pay suppliers for last month.' Later that day John found that the late customer deliveries which had started his investigation, were actually caused by poor sales forecasts by the marketing department. They had seriously underestimated demand, and planned production was too low. All the employees at FT Ltd were doing their best, but things seemed to be going wrong.

Required:

- a) Identify the main risk vulnerabilities faced by FT Ltd and discuss ways of mitigating the same **(6 marks)**
- b) Explain the risk management process and discuss its objectives **(8 marks)**
- c) Using the PESTLE tool, discuss the potential sources of risk to wood suppliers who are considering entry into this construction industry. **(6 marks)**

Question Two

Your County has been highlighted for extravagance in the financial management and particularly in the area of procurement and have approached you as a student of Risk Management and Supply Chain vulnerability for advice on how to change their image in their circumstance.

- a) Explain to them the importance of Risk Identification in the County. **(8 marks)**
- b) Discuss the appropriate Risk Identification techniques in this case **(12 marks)**

Question Three

You were recently hired in the newly created position of Risk Manager in ABC Company which supplies high grade maize to the local millers. The company had been sued by some of the millers accusing it of supplying contaminated maize that caused serious health problems to the consumers. Give concrete advice to the Board of Directors of ABC Company on the suitability of managing risk through the following techniques:

- a) Risk Control **(10 marks)**
- b) Risk Financing **(10 marks)**

Question Four

One of the vulnerable areas in an organization is Procurement, which calls for a thorough scan and proper use of a risk register in order to capture and evaluate the actual and potential risk exposures. Based on this fact, discuss the main features of a basic risk register for a procurement and supply function to help mitigate risk and vulnerability **(20 marks)**

Question Five

The devolved system of governance in Kenya has revolutionized the business world and brought services closer to the people at the County levels. This has led to numerous challenges with lots of conflicts coupled with self-interests in the selection and awarding of suppliers to these Counties. Discuss the importance of comprehensive supplier evaluation in order to minimize risk when selecting critical suppliers for an organization **(20 marks)**

Question Six

A recent research revealed that most Organizations have not fully embraced the concept of risk management and as such, either fail to invest in risk awareness programs or are simply risk averse, thus leading to serious losses as a result of failure to recognize both potential and existing risk exposures. In the light of this statement;

- a) Discuss why organizations need to raise risk awareness amongst stakeholders **(15 marks)**
- b) Explore five ways in which companies can improve their risk awareness **(5 marks)**
