

**Institute of Incorporated Public Accountants**

**August 2012 Examinations**

**Module 10**

**Strategic Management**

**Marking scheme**

**SECTION A – Compulsory Question**

**Question 1**

You have been approached by a budding entrepreneur who currently has great business success for manufacturing organic beauty products in Ireland but they wish to expand their product offerings into foreign markets but they are not entirely sure as to **what the appropriate modes of entering** into a foreign market are. They have requested the assistance of a business consultant, where they can receive expert information on entrepreneurship and innovation strategies for international markets.

- (a) As the business consultant, you are required to **outline the main options** available for entering foreign markets and **discuss** the advantages and disadvantages associated with each option. Limit your number of options to **four**.

**(4 x 5  
marks)**

1. **A fully owned subsidiary** – there could be a 'green field' venture involving setting up new premises in another country or taking over existing business. Both of these would require considerable investment.
2. **A joint venture** – This could be an agreement between a firm and a partner operating in another country. It could lower financial outlay, maintain the independence of both parties and be politically acceptable.
3. **Licensing** – this would enable establishment in another country using the firm's intellectual property. It would avoid significant financial outlay but could require a heavy monitoring system. Revenue would be in the form of royalties and may be low in the early years of the arrangement.
4. **Franchising** – would use firm's trademark, logo and methods in return for a fee. The returns would be fee up front and a percentage of revenue in return for technical assistance. Quality control would be a key issue.
5. **Exporting** – would be appropriate in developing international activities for the first time with a low level of investment. Firm would need to identify priority markets and appoint a specialist in international business development. Tailoring products/services to international needs may be difficult

**(5 x 4 marks)**

**(20 marks)**

**(b)** Discuss how an organisation can increase intrapreneurship with their staff members.

- Provision of training for all staff in modern tools and techniques
- Encourage a free flowing of ideas
- Have brainstorming sessions/ suggestion boxes for new ideas
- Research and development activities

**(5**

**marks)**

**(Total 25  
marks)**

## **SECTION B – Answer any three questions**

### **Question 2**

“Empowerment of your workforce can be critical to the success of an organisation”.

**Discuss** this statement explaining why organisations use empowerment, and outlining the key advantages and disadvantages of Empowerment?

#### **Why organisations use empowerment – sharing of Power**

- To allow employees participate fully in the organisation and have some degree of ownership
- Fast response to changing customer needs,
- Extensive use of teams in organisations all for empowerment
- Quick decision making
- Personal responsibility
- Delegation

**(5 x 2 marks)**

#### **Advantages:**

- Better customer service
- Flexibility to respond to changing conditions
- Speed of outcomes
- Formations of important cross functional links
- Improved morale for staff
- Compensation of limited career paths.

**(5 x 1**

**marks)**

#### **Disadvantages:**

- Greater potential for chaos - conflicting messages from employees to customers
- Lack of clarity – who does what?
- Breakdown of hierarchical control – loss of control by top mgt.
- Demoralisation – not everybody want to be empowered
- Loss of power by management

**(5 x 1**

**marks)**

#### **Examples**

**(5 marks)**

**(Total 25 marks)**

### **Question 3**

“There are three potentially successful generic approaches to outperforming other firms in an industry - overall cost leadership, differentiation, and focus”

**(Porter, 1985).**

**Assess the validity of this statement** by referring to competitive positions within an industry of your choice.

**Total (25 marks)**

- **Management strategy:** how will one compete in a chosen area! In this context, low cost, focused or differentiated are all management strategies because they define 'how' a business will compete.
  1. Focused strategy (narrow scope and high competitive differentiation between the company in question and other competitors in the segment)
  2. Differentiated strategy (broad scope and differentiated across segments)
  3. Undifferentiated (broad scope and undifferentiated across segments)
- **A focused strategy** is appropriate when the following apply: Benefit oriented customers, low interest in full line, highly differentiated customer needs across segments, differentiated resource requirements, low cost/volume sensitivity and narrow skills base.
- **Undifferentiated strategy** is appropriate when the customer is very price conscious, where there is a strong demand for a full line service, where differentiation across segments is low, where resource requirements are similar, where cost/volume sensitivity is high, and the company skill base is narrow.
- **Differentiated strategy** is appropriate when customer price/benefit orientation is mixed/segmented, where there is strong demand for a full line service, where customer needs are highly differentiated between segments, where resource requirements are differentiated, where cost/volume sensitivity is high and where there is a broad company skills base.
- Porter speaks of sustainable competitive advantage and says there are only two ways to achieve this advantage. The two ways are either low cost (which is not the same as low price) or differentiation (uniqueness).
- Porter refers to companies who are able to develop both low cost and differentiation strategies (Toyota cars, McDonalds etc.) at the same time and these are then able to outperform all competitors.

- Using the Porter model, then the use of a focused strategy is inappropriate since it could be either part of a low cost strategy or a differentiation strategy
- A firm that pursues each of these generic strategies, but fails to achieve any of them is 'stuck in the middle'. It possesses no competitive advantage. This position will usually result in below average performance for the firms involved. The benefits of focused strategy for example, cannot be gained, if simultaneously a firm is servicing a broad range of segments on a cost leadership or differentiated basis.
- Cost leadership and differentiation are also usually mutually exclusive, because differentiation is generally costly. To be unique and charge premium prices a differentiator deliberately incurs extra costs.

**(Total 25**

**marks)**

#### **Question 4**

**Define** the term environmental scanning as it applies to strategic management and **discuss** its purpose in an industry analysis, giving examples to support your answer.

Monitoring and interpreting sweep of:

- Social,
- Political,
- Economic,
- Ecological and
- Technological events to spot budding trends that could eventually impact industry.

Raise consciousness of managers about potential developments that could have important impact on industry conditions and/or pose new opportunities and trends

**(5 x 5**

**marks)**

**(Total 25**

**marks)**

**(Total 25**

**marks)**

#### **Question 5**

**Discuss** the rationale for organisations in engaging in Outsourcing, giving examples to support your answer.

Discuss the importance of outsourcing in business.  
**(10 marks)**

**Rationale for outsourcing:**

- An activity can be performed more cheaply by outside specialists.
- Activity is not crucial to the firm's ability to achieve sustainable competitive advantage
- It reduces the company's risk exposure to changing technology and/or changing buyer preferences.
- It streamlines company's operations in ways that improve organisational flexibility.
- It allows a company to concentrate on its core business. **(5 x 2 marks)**

**Examples (5 marks)**

**Question 6**

**Critically evaluate** the reasons that encourage firms to pursue related and unrelated diversification, giving examples from your readings and case study analysis.

**(Total 25 marks)**

**Discussion of related and unrelated diversification and the benefits of both**

- **Related diversification** – is diversification into a business activity that is linked to a company's existing activity or activities, by commonality between one or more components of each activity's value chain. Normally these linkages are based on manufacturing, marketing or technological commonality. AA, Caterpillar, Gillette, Johnson and Johnson
- **Unrelated diversification** – is diversification into a new business area that has no obvious connection with any of the company's existing areas – Quinn Direct,

**(5 marks)**

**Incentives of Related** – Based on Value Chain efficiencies  
(strategically driven)

- Involves adding businesses whose value chains possess competitively valuable strategic fits with value chain of company's present business
- Opportunities for transference of expertise or technological know-how
- Opportunities for combining the related activities of separate business into a single operation to reduce costs - EOS
- Opportunities to exploit common brand name
- Opportunities for cross-business collaboration
- Main advantages are economies of scope (eliminate costs through strategic fit relationships along the value chains thereby operating two or more businesses under the same corporate umbrella) and competitive advantage (cross-business strategic fits add to the performance potential of the firm's individual business thereby having a synergistic effect on shareholder value) **(Any 4 x 2 marks)**

**Incentives of Unrelated** – financial gains (financially driven)

- Involves diversifying into whatever industries and businesses hold promise for attractive financial gain (exploiting strategic-fit relationships is secondary)
- Activities comprising company's value chains are so dissimilar that no real potential exists to transfer skills or technology from one business to another or to combine similar activities and reduce costs or to otherwise produce competitively valuable benefits from operating under a common corporate umbrella
- Often concentrates on identifying acquisition candidates that offer quick opportunities for financial gain (i.e. companies whose assets are undervalued – buy at less than market value and realise substantial capital gains on reselling - and companies that are financially distressed – purchase at a bargain price and turned around before selling at a profit or keeping as part of an investment portfolio)
- Business risk scattered over a diverse range of industries
- Company's financial resources used to maximum advantage
- Cyclical elements of one industry can be used to counteract cyclical elements of another (i.e. greater profit stability)
- Bargain priced companies with big upside profit potential enhances shareholder wealth

- However, difficult to manage many different businesses and no added source of CA through cross-business strategic fit **(Any 4 x 2 marks)**

**Discussion and examples  
marks)**

**(4**

**marks)**

**(Total 25**

**marks)**

**(Total 25**