Strategic Management
Module 10
June 2009

Suggested Solutions

Question 1

(a)

Business ethics: the study of good, evil, right and wrong, and just and unjust actions in business.

Social responsibility: pursuing the stakeholder approach to business, ensuring products are safe, looking after employees, customers, the environment, looking after shareholders rights – Anglo Irish Bank, AIB, BOI.

Why should business be ethical?

- To meet demand of business stakeholders – customers, employees, environment, community – In Nike case, discussion of the importance of looking after your staff and ensuring no underage staff are being used or staff are not being abused or harassed.
- To enhance business performance – ethics pays – link between ethics and good financial performance – Brand Image and reputation are important
- To comply with legal requirements – employment laws, human rights laws, corporate governance,
- To prevent or minimize harm to consumers, the environment, the employees, handling of information, product safety
- To promote personal morality

References to the banking crisis in Ireland, FAS, Enron, Worldcom can also be made reference to.

[10 Marks]

(b)

- Establish standards and procedures – written documents – Code of Conduct, Value statements, Disciplinary procedures
- Create high level oversight – top management's involvement and enforcement
- Screen out criminals – background checks, checking references.
- Communicate standards to employees – training is very important
- Monitor and set up an anonymous hotline
- Enforce standards, discipline violators – use incentives and punishments
- Assess areas of risk, modify programme
- Use of internal and external audits to check staff rights and conditions of employment. **[10 Marks]**

(c)

- Increases awareness of ethics in organisation
- Leads to better behaviour in the organisation – employees know what's right and wrong
- Establishes accountability for unethical practices **[5 Marks]**

Total Marks 25

Question 2

- Move quickly when technological uncertainty clears and a dominant technology emerges and try to capture first-mover advantages by adopting it quickly
- Push to perfect technology, improve product quality and develop additional attractive performance features
- Form strategic alliances/partnerships with firms that have complementary technological expertise as a means of helping to out-compete rivals on the basis of technological superiority e.g. key suppliers /firms that have related technological expertise
- Use price cuts to attract next layer of price-sensitive buyers into the market
- Pursue new customer groups, new user applications and entry into new geographical areas (using strategic partnerships or joint ventures if financial resources are constrained
- Make it easy/cheap for first-time buyers to try the industry's first generation product **[5 x 5 Marks]**

Total Marks 25

Question 3

<u>Students to clearly explain related and unrelated diversification = 5 marks</u>

Related – VC efficiencies (strategically driven)

- Involves adding businesses whole value chains possess competitively valuable strategic fits with value chain of firm's present business

- Opportunities for transference of expertise or technological know-how

- Opportunities for combining related activities of separate businesses into a single operation to reduce costs

- 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)

[10 Marks]

Unrelated – financial gains (financially driven)

- Involves diversifying into industries/businesses that hold promise for attractive financial gain - exploiting strategic-fit relationships is secondary

- Activities comprising a firm's value chains are so dissimilar that no real potential exists to transfer skills/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. firms whose assets are undervalued - buy at less than market value and realise substantial capital gains on reselling - and firms 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

- Firm'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)

[10 Marks]

Total Marks 25

Question 4

Innovative, state-of-the-art support systems can be a basis for competitive advantage if they provide firm capabilities that rivals can't match.

- Information Systems and Performance Tracking
- Controls over empowered employees
- Strategy supportive reward systems
- Strategy supportive motivational practices
- Linking reward systems to strategically relevant performance outcomes

[5 x 5 Marks]

[Total Marks 25]

Question 5

- All orgs. operate in an external (macro-environment) shaped by influences emanating from the economy at large: population demographics; societal values and life styles; government legislation and regulation; technological factors and industry and competitive arena in which org. operates.

- These factors have a bearing on the decisions the org. makes about its direction, objectives, strategy and business model.

- Strategically, influences coming from the outer ring of the macro-environment can have a high impact on the organisation's business situation and have a very significant impact on the organisation's direction and strategy. For example, all organisations have to craft strategies that are responsive to environmental regulations.

- Happenings in the outer ring of the macro-environment may occur rapidly or slowly, with or without advance warning and the impact of outer-ring factors on an organisation's choice of strategy may range from big to small.

- As an organisation's management scan the external environment, they must be alert for potentially important outer-ring developments, assess their impact and influence and adapt the organisation's direction and strategy as needed.

- Appraising an organisation's resource strengths/weaknesses and its external opportunities/threats ***(SWOT Analysis***) provides an overview of whether an organisation's situation is fundamentally healthy or unhealthy. The SWOT analysis provides the basis for crafting strategy that capitalises on its resources, aims at capturing the organisation's best opportunities and defends against threats to its well-being.

- Students to explain two models; PESTE (STEEP) and SWOT models using illustrations!

[2 Marks X 12.5 points as above]

Total Marks 25

Question 6

(a)

Benefits:

1. Speed in getting into particular country markets and build a global presence
2. Gain insight knowledge about unfamiliar markets/cultures though alliances with local partners
3. Access valuable skills and competencies
4. Establish a foothold in target industry
5. Master new technologies and build new expertise **[5 x 3 Marks]**

(b)

- Alliances fail because operating managers do not make them work, not because contracts are poorly written.

- Mangers from partner firms often come from different national and corporate cultures and have difficulty in understanding and approving or approving of their allies' ways of operating.

- Managers have been trained to operate in hierarchically organised firms and are somewhat disadvantaged when faced with the need to act through consensus.

Factors that affect the management of such partnerships:

- Positive attitude towards the partners
- Clear operational arrangements for the alliance
- Philosophy of organisational learning
- Congruent long-term goals **[4 x 2.5 Marks]**

Total Marks 25