

Institute of Incorporated Public Accountants

August 2011 Examinations

Module 10

Strategic Management

Solutions

SECTION A – Compulsory Question

Question 1

- (a) You have recently been employed by an expanding retail grocery company in Ireland as a strategy advisor. Your main role involves researching the competitive dynamics of the industry and advising the company on the nature of the competition and whether expansion is a viable option or not.

Using Porter's five forces framework, **evaluate** the use of the model as a method for evaluating the intensity of competition, giving examples to support your answer. **(15 marks)**

- **Discussion of the 5 forces of Porter's model:**
 1. Rivalry among existing players – Tesco, Dunnes Stores, M&S, Aldi, Lidl, Centra, Spar, Musgraves – competition is very intense
 2. Threat of new entrants – Sainsbury's, more Aldi and Lidl stores opens, expansion by existing competitors - Medium
 3. Threat of substitutes – low – use of internet to do your shopping
 4. Bargaining power of Buyers – depends on size of buyers – Individual customers have low bargaining power, bigger buyers have more influence
 5. Bargaining power of Suppliers – Big suppliers – Strong bargaining power, small suppliers less power

 - Students must draw their own conclusions on nature of competition

 - It assesses the overall attractiveness of the industry and gives insights into profitability.
 - It supports decisions about entry or exit to market.
 - It reveals drivers for change in the industry.
 - It can help organisations develop options to influence them in a way that improves their competitive position.
 - It can reveal insights about potential future attractiveness of industry.
 - Examples
- (b) Outline in your opinion, the key success factors for the retail grocery industry in Ireland.
- Access to capital
 - Size of market and number of competitors, ease of entry to market
 - Price/ Value for money
 - Access to key suppliers
 - Customer loyalty
 - Brand image and reputation
 - Location
 - Use of e-business
- (Any 5 x 2 marks)**

(Total 25 marks)

SECTION B – Answer any three questions

Question 2

“Establishing the correct organisational structures and systems are major issues that managers must deal with when implementing a new strategy” (Thompson and Strickland, 2010).

Evaluate this statement giving examples from organisations that you are familiar with. (Total 25 marks)

Elaboration of the following points:

- Importance of structure following strategy – organisations must change structure to support new strategy. (5 marks)
- Pinpointing strategy critical activities that are pivotal to success – building blocks to organisational strategy.
- Determine reporting relationships and cross functional co-ordination.
- Determine the degree of authority and independence to give each unit.
- Discussion of different organisational structures – Functional, Product, Geographical, Matrix, Mixed.
- Organisations must supplement organizational structures with team work, cross functional teams and self-managed teams. (10 marks)
- Outline of current and future organisation structures – flat structures, wide spans of control, use of empowerment and extensive use of teams. (5 marks)
- **Examples** from organisations that students work, or college – based on areas of specialisation, School of Business, School of Science, School of Engineering, or give examples based on supermarkets, hospitals, companies that have different products might use a product structure, a globalized firm might use a geographical structure. (5 marks)

(Total 25 marks)

Question 3

Evaluate the strategies that an organisation must pursue in order to survive in a turbulent high velocity market, giving examples to support your answer.

(Total 25 marks)

Discussion of the following points:

- Decide on whether the company is going to pursue a leader or a follower strategy.
- Companies need to respond quickly to change, lead the change or anticipate the change.
- Invest in R&D in technology and product related areas – Cloud computing!
- Develop quick response capability – adapt your competencies and capabilities to changing environmental and customer needs. – importance of market research, benchmarking competitors
- For strategic partnerships or alliances to strengthen your position
- Make moves to keep strategy fresh – new products, new markets.
- Continuously update the company's products keeping them fresh and exciting enough to stand out from competitors – i.e. the iPhone, new applications and software, Mobile broadband.

(5 x 4 marks)

- **Examples above**

(5 marks)

(Total 25 marks)

Question 4

Discuss the role and importance of Corporate Governance to the modern day business environment and give examples from recent events in Ireland to enhance your answer.

Answer must include the following points:

- **Definition and understanding of Corporate Governance** – Executives/Non Executives, Chairpersons and Board of Directors must be held personally accountable for their business activities, failure to comply with legal standards may have debilitating consequences for the company, its' shareholders, employees and company reputation.
- **Main aim is to promote:** Accountability, transparency and to prevent fraud and deception in company activities. Examples Banking system in Ireland (NAMA) – FAS now renamed SOLAS, examples of corruption. Changes to legal system in Ireland are required.

(10 marks)

Discussion of following points:

- Legal protection of the whistleblower is required.
- Managers and Directors must possess adequate technical knowledge and expertise.

- Managers should ensure that their strategies are ethical and socially responsible.
- Must consider stakeholders interests in their business decisions.
- Board of Directors must meet more often in order to ensure that they know what is going on in the company.
- BOD must ensure that no one person has too much power and responsibility

Some recommendations in promoting Corporate Governance:

- No individual should be both chairperson and chief executive
- At least half of the members on the board should be non-executive directors.
- More extensive disclosure in the annual reporting including how the board operates.
- There should be separate and independent audit and remuneration committees.
- There should be a rigorous recruitment process. **(10 marks)**
- Examples - Anglo Irish Bank, FAS, Quinn Direct, Irish Nationwide.

(5 marks)

(Total 25 marks)

Question 5

Discuss the payoffs of a clear strategic vision for organisations. Please ensure to give examples to support your answer.

(Total 25 marks)

- Discussion of what a **vision** statement is and how it is different to a **mission** statement (what business the company is currently in and the customers and markets they serve) **(5 marks)**

Vision statements are important as they:

- Crystallises organisations long term direction
- Reduces risk of rudderless decision making
- Creates a committed workforce as they know where the company is going and “how” it is going to get there.
- Provides a beacon **(4 x 3 marks)**
- **Examples** of visions of growth, international growth, new product areas, mergers, acquisitions, strategic alliances. **(8 marks)**

Question 6

Explain the role of value chain analysis in assisting companies to conduct a strategic cost analysis of its activities, with the view of making the firm more cost effective giving examples to support your answer. **(Total 25 marks)**

Answer should include:

- Explanation of what value chain analysis is? Diagram, brief outline of primary and secondary activities. **(5 marks)**
- Value chain analysis shows the cost of each activity by using ABC
- Shows the importance or not of each activity
- Highlights where synergies/or strategic fits might be achieved across businesses – i.e. marketing – use of common sales force teams, sharing of manufacturing facilities or distribution channels, common suppliers, use of e-commerce, use of powerful brand name, Examples PepsiCo, products include: soft drinks, waters, snacks, juices, ready to drink teas and coffees, cereals, isotonic drinks – use of powerful brand name, common suppliers, shared marketing and advertising. Other examples Adidas takeover of Reebok in order to try and overtake Nike's No.1 position, commonalities in value chain activities exists **(10 marks)**
- Focuses on the firm's cost relative to its competitors – use of benchmarking and strategic cost analysis **(5 marks)**
- Identifies those activities where a cost advantage exists
- Identifies those activities where a cost disadvantage exists and therefore tries to eliminate any non-value adding activities. **(5 marks)**

(Total 25 marks)

