



Institute of Incorporated Public Accountants

May 2015 Examinations

Module 10

Strategic Management

SOLUTIONS

SECTION A – Compulsory Question

Question 1

In today's competitive environment, it is very important for an organisation to monitor its external environment.

Select two appropriate environmental assessment models and indicate, using examples, how these might be applied in the process of developing a competitive strategy.

- All orgs. operate in an external (macro-environment - **PESTEL**) 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 too 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.

(2 x 10 points as above = 25 marks)

Examples 5 marks

Students to explain the **PESTEL and SWOT** models using illustrations!

(25 marks)

SECTION B – Answer any three questions

Question 2

Discuss giving examples the importance of value chain analysis in assessing a firm's cost advantage in comparison to its competitors.

Value chain analysis is a systematic way of studying the direct and support activities undertaken by a firm - broken down into primary and support activities.

Conceptually the value chain is a useful way of analysing resources and functions within the organisation in the context of how they might individually contribute to competitive advantage. At the same time the linkages between them should be assessed, because it is from these interrelationships and linkages that synergy in the form of additional cost savings or differentiation is created.

A cost advantage can arise from:

Low cost distribution, efficient production, an excellent sales force who succeed in winning the most appropriate orders and potential benefit from improving its lines in other organisations e.g. Marks & Spencer and its suppliers.

The following cost drivers can influence the value chain:

Economies of scale and potential experience and learning curve benefits.

Capacity utilisation - linked to production control and the existence of bottlenecks.

Linkages - time spent liaising with other departments can incur costs but at the same time create savings and differentiation through interrelationships and shared activities.

Interrelationships and shared activities - possibly a shared sales force, shared advertising or shared plant can generate savings. Close links between other departments can increase quality and ensure that the needs of customers are matched more effectively.

Integration - this incorporates the extent to which the organisation is vertically integrated, e.g. manufacturing its own component parts instead of simply assembling bought-in components, or even designing and manufacturing its own machinery.

Timing - buying and selling at the appropriate time. It is important to invest in stocks to ensure deliveries when customers want them - at the same time stockholding costs must be monitored and controlled.

Policies - policy standards for procurement or production may be wrong. If they are set too low, quality may be lost and prove detrimental. If they are too high in relation to the actual needs of the market, costs are incurred unnecessarily.

Location issues - this includes wage costs, which can vary between different regions, and the costs of supporting a particular organisation structure.

(Brief discussion on any 5 of the above points x 4 marks plus examples 5 marks)

(Total 25 marks)

Question 3

Identify what issues to consider in establishing a strategy-supportive organisational structure and organising the work effort, giving **examples** to support your answer.

Discussion of the following points;

1. Decide which value chain activities to perform internally and which to outsource.
2. Align the organisational structure with the strategy – a new strategy requires a new structure in place – use of SOPs, policies and procedures.
3. Decide how much authority to centralise and how much to delegate – explanation of centralisation and decentralisation and when used
4. Facilitate collaboration with external partners and strategic allies

- **(4 x 5 marks)**
- **5 marks for examples**

(Total 25 marks)

Question 4

Critically evaluate the conditions that can give rise to unethical business strategies and behaviours by individuals in the organisation. Please ensure to include current examples from organisations that you are familiar with to enhance your answer. **(Total**

25 marks)

Answer 5

- Faulty oversight that implicitly allows overzealous pursuit of personal gain, wealth and self-interest.
- Heavy pressure on managers to meet or beat short-term performance targets
- An organisation culture that puts profitability and business performance ahead of ethical behaviour.
- Examples from Banking crisis, HSE, Rehab, Catholic church, Garda, Enron,
- **3 x 6 marks for the above type of answer and its elaboration,**
- **7 marks for examples.**

(Total 25 marks)

Question 5

"The soft stuff is harder than the hard stuff - Roger Enrico, Former CEO of PepsiCo". (Thompson et al, 2013, p. 395.)

Discuss why organisational cultures matter to the strategy execution process.

Elaboration upon the following at 7 x 2 marks each

- Healthy cultures aid good execution
- Unhealthy ones impede execution
- Culture matched to strategy focuses employees on the important stuff
- Culture induced peer pressure aides employee control
- Positive cultures can energise and create stronger psychological contracts etc.
- Perpetuating a firms culture allows it to embed itself in the orgs key values
- Use of examples and case studies **11 marks**

Question 6

Discuss giving examples the major options for entering and competing in global markets, giving examples to support your answer.

- Export strategies – use of E-business
- Licensing
- Franchising
- Greenfield venture
- Acquisitions and mergers
- Strategic alliances

6 x3 marks for the above points and their elaboration

7 marks for case examples

(Total 25 marks)