



**Institute of Incorporated Public  
Accountants**

**August 2015 Examinations**

**Module 10**

**Strategic Management**

## SECTION A – Compulsory Question

### Question 1

“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 and explaining when it is appropriate to use each strategy.

**Total (25 marks)**

### **Discussion of the 3 approaches: 5 x 3 marks**

- **Management strategy:** how will one compete in a chosen area! In this context, low costs, 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.

**Examples 5 marks**

**Quality of answer and academic elaboration 5 marks**

**(Total 25 marks)**

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

### **Question 2**

**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 – BRIC countries
- Continuously update the company's products keeping them fresh and exciting enough to stand out from competitors – i.e. the I phone, new applications and software, Mobile broadband. **(5 x 4 marks)**
- **Examples above – Technology sector – Apple, Samsung, IBM, Google, Facebook,** **(5 marks)**

**(Total 25 marks)**

### **Question 3**

*“A brilliant strategy, blockbuster product, or breakthrough technology can put you on the competitive map, but only solid execution can keep you there. You have to be able to deliver with intent” (Neilson et al, 2008, p.2).*

**Critically discuss** the above statement and please draw on the theory and practical examples to enhance your answer.

#### **Discussion of the following points:**

- Structural measures
- Clear lines of responsibility
- Important information on competitors to be known and understood
- Decisions are put in place and reviewed where appropriate
- Information to flow freely across the organisation
- People have the information needed to make decisions
- Create a transformation programme

**7 x 2 marks for the above type answer and its elaboration**

**5 marks or examples**

**6 marks for academic quality of answer.**

**(Total 25 marks )**

#### **Question 4**

*“Organisations have come up with impressive variety of motivation and reward practices to help create a work environment that energises and promotes better strategy execution” (Thompson et al, 1013, p.409).*

**Critically discuss** this statement drawing on the theory and practical case examples to enhance your answer.

**(25 marks)**

Brief discussion on the role of reward schemes:

- Bonus schemes linked to customer satisfaction
- Exceptional contribution awards
- Flexible working arrangements
- Employees choose projects they wish to work on and peer review built into pay
- Build rapport with staff, face to face meetings as much as possible
- Shared ownership, pensions, savings schemes and bonus scheme

**6 marks - brief discussion on role of reward schemes**

**6 x 2 marks for the above type schemes and their elaboration**

**4 marks for examples**

**3 marks for academic quality of answer.**

**(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)**

**(Total 25 marks)**

### **Question 6**

*“A key factor for effective strategy implementation is the quality of **strategic leadership** at the top of the organisation” (Henry, 2011, p. 353).*

**Critically discuss** this statement drawing on the theory and practical case examples to enhance your answer.

- Ability to communicate organisation goals clearly
- Guide employees to focus attention on achieving goals
- Leader recognition of the importance of implementation
- Create and encourage organisation culture that empowers individuals to respond to opportunities
- Leaders must sell the rationale for effective strategic change
- Build a shared vision

**6 x 2 marks for the above type answer and its elaboration**

**7 marks or examples**

**6 marks for academic quality of answer.**

**(Total 25 marks)**



