SOLUTION - STRATEGIC MANAGEMENT MAY 2007

QUESTION 1

(a) In view of the problems faced by Air Sanco, the most important objective is to reduce or minimize losses and to increase revenue.

All the strategies implemented before the arrival of the current CEO appear to have problems.

1. An increase in the number of routes while maintaining the previous ones was also uneconomical; moreso when there were only 3 aircrafts left.

2. Borrowing huge amounts of money for the rehabilitation of the aircraft was only increasing the risk. Therefore the strategy was inappropriate.

3. Flying in the pastor to pray was only increasing the company's cost.

4. The current CEO's intention to reduce the number of routes was in order because it was to minimize losses (that is regarding the unprofitable routes).

5. The job cuts and review of the conditions of service may have been well intended but the approach is very important because people's interests are at stake. They are not likely to react favourably.

6. An increase in airfares may worsen the case of Air Sanco, as it is likely to loose its customers to the competitors.

(b) The strategies suggested are as follows

- (i) reduction in the number of routes particularly the unprofitable ones
- (ii) cutting down on all non-critical expenditures
- (iii) reduction in the number of staff especially the non-core staff. This must be preceded by meetings with the chairman and their involvement in the implementation process.
- (iv) Acquire new aircrafts
- (v) Joint ventures
- (vi) Appoint a task force to implement the new strategies.

(c) Implementation tasks.

- (i) Communication with key stakeholders

(ii) Ensuring/introducing an appropriate organizational culture

(iii) Building an appropriate organization structure

(iv) Introducing strategy supportive policies.

QUESTION 2

The BCG matrix is the planning tool that is used to evaluate performance of a company's products or business units and to allocate resources among them.

The technique for using the model involves assigning each individual product of the organization to one of four possible cells in the matrix.

Two basic factors define a product's position in the market. They are the relative market share of the product and the market growth rate, each of which is either rated high or low. The relative market share is high when it equals 1 or above and vice versa.

The market growth rate is also high when it is equal to or more than 10%.

For Onuado Limited: In the opinion, the four products which are experiencing different levels of performance can be assigned the various quadrants as shown in the diagram below:

	Relative Market share: High	Relative Market share: Low
Market Growth 10%: High	A Stars	B Question Marks
Market Growth 10%: Low	C Cash Cows	D Dogs

1.0

Depending on their positions the products can be described as stars, cash cows, question marks or dogs.

The star among the products product A is the one with a high market share and high growth rate. It is generating large cash inflows but needs heavy cash investments from time to time to maintain its market share.

Product C is a cash cow and is the one generating huge amounts of cash to sustain the business.

Product B is the question mark or problem child as it has a low market share. The high market growth rate in the industry makes it look attractive but the low market share raises questions about its sustainability.

Product D has a low market share and is in a slow market growth industry. Such products do not generate significant cash even to hold their position.

To manage this portfolio, the stars which have a high market share must be supported by the cash cow to maintain its position and perhaps to become a cash cow itself one day. The question marks may be supported with cash to become stars if they show the potential of improving. Some may not improve no matter the level of support they receive. In that case, it is better to allow them to survive on the cash they generate. The continuous stay in the portfolio may serve some strategic purpose.

The product D, the dog is often the most unattractive and is a net cash user. Unless it shows signs of improvement in the near future, it must be divested.

Managing the portfolio therefore requires a critical look at the performance of the various products so that cash is moved to those areas which have the potential of contributing more to the organization as a whole.

QUESTION 3

(a) A firm is said to enjoy competitive advantage when it declares the same benefits as competitors but at a lower cost (cost advantage) or delivers benefits that exceed those of competing products (differentiation advantage). Competitive advantage thus enables the firm to create superior value for its customers and superior profits for itself.

(b) Competitive advantage is sustainable when competitors are unable to copy or imitate the product or services of a firm. Superior resources which make competitive advantage sustainable have the following characteristics:

- They add to perceived customer value of the product
- They have competitive superiority over those of competitors
- They are scarce (in short supply)
- They are inimitable (cannot be easily copied or acquired)
- They are durable

Candidates are expected to discuss each of the points.

QUESTION 4

(b)
Strategy can be formulated at three different levels; corporate, business and functional levels.

Corporate level strategy is fundamentally concerned with the selection of businesses in which the company should compete and with the development and co-ordination of that portfolio of businesses. Specifically this might include:

- identifying the overall goals of the organization, the type of businesses to engage in and the way they should be managed.

- seeking to develop synergies by sharing and co-ordinating staff and other resources across business units as well as investing financial resources across business units.

- deciding how business units are to be governed; either through direct corporate intervention (centralization) or through autonomous government (decentralization)

Headquarters therefore acts as a corporate parent.

Business level strategy: While the organization must manage its portfolio to grow and survive a business unit within the portfolio is concerned with how to sustain a competitive advantage for the goods and services produced.

At the business level, strategy formulation deals with:

- positioning the business against rivals
- anticipating charges in demand and technologies and adjusting the strategy to respond to them.

Three different strategies are available for the business unit to create a competitive advantage and defend itself against rivals. These are cost leadership, differentiation and focus strategies.

FUNCTIONAL LEVEL STRATEGY: The functional level is the level of operating divisions and departments. The strategic issues at this level are related to business processes and the value chain. Strategies in marketing, finance, operations and human resources involve the development and co-ordination of resources through which business unit level strategies can be executed.

To sum up, functional units of an organization provide input such as information on resources and capabilities on which the business and corporate strategies can be based.

Once the higher level is developed, the functional unit translates it into discrete action plans that each department or division must accomplish for the strategy to succeed.

(b)
Strategy formulate at the business unit level is translated into operational activities at the functional level, each functional area playing a specific role in the achievement of the business strategy.

The roles of some functional areas are described below;

Marketing:

- Provides marketing information (market product or customer-related information) to other departments
- Ensures that want satisfying products and services are delivered to the target markets thereby helping to sell the products to achieve the objective
- Assist in making the organization market oriented. That is adopting the appropriate culture for the achievement of strategic objectives
- Leads the organization to adopt a suitable product or service strategy in consonance with the new organisational strategy.

Finance

- Provides/generates the financial resources needed for implementing strategy
- Prepares financial budgets to help in monitoring and controlling deviations from planned targets
- Provides financial standards for increasing performance

Human resource

- Selects people with the most appropriate skills to perform strategy implementation tasks
- Organizes training and development programmes to prepare employees for changes and/or additional responsibilities
- Institutes reward systems for compensating hard work

NB: Candidates are expected to discuss the role of <u>two</u> functional areas

Discuss 2 roles under each function

QUESTION 5

(a) An organizational structure is the sum total of the ways in which an organization divides its labour into distinct tasks and then achieves co-ordination between them

(b) There are six basic types of structures around which an organization can build its strategy. They are the small organization type, the functional, multi-divisional and holding company structures. The others are the matrix and the innovative types.

(i) The small organization structure is used by small organizations with limited resources. Its flexibility and informal nature allows fast responses to market opportunities and customer service requirements. The structure is often built around one (owner/leader) and/or a few others who may be contributing to the strategy.

(ii) The functional organization structure is adopted by small to medium-sized organizations which deal with one main product. In this structure work is organized around the various sets of activities which are headed by experts. Examples of these functional areas are marketing Finance, operations and personnel.

(iii) As the organization grows it needs to sub-divide its activities in order to deal with increased number of products, the geographical expansion of the organization or other aspects of the business. The appropriate structure to handle this is the multi-divisional structure. As the name suggests, it is made up of a number of divisions, each of which has its own functional areas or departments. Each division has different customers, setups and methods of operation. The centre largely influence strategy and allocates resources.

(iv) Further growth in the organization may lead to more complex arrangements between different parts of the organization and outside companies. The original company becomes a holding company essentially playing the role of shareholder in the various arrangements and allocating resources to the most attractive profit areas. Examples of these arrangements are joint ventures, alliances and partnership.

(v) The matrix organization structure is a structure with two (or more) channels of command, two lines of budget authority, and two sources of performance and rewards. They key feature of this structure is that business (or product or project) and functional lines of authority are over laid to form a matrix and managerial authority over the activities in each unit/cell if the matrix is shared between the business/product/project team manager and the functional manager

(v) The sixth type of organisational structure is the innovative structure which thrives on creativity and inventiveness. An organization using this type of structure relies on teams that bring together experts from different functional areas and have an open style of operation, a condition which allows for the development of some aspects of strategy.