STRATEGIC MANAGEMENT - MAY 2008 SOLUTION

QUESTION 1

a) DT adopted the following strategies

- Investment of over $500m to establish the basic structures
- Build 6 – 10 cell sites every week across the country
- Introduction of a better technology – GSM
- Adoption of a low cost provider strategy
- Massive promotional campaign
- Intensive distribution of its products.
- Adoption of a market segmentation strategy.
- Merger with an International Cellular operator-veticom

b) It will also take its competitors longer to catch up with this new technology.

GSM uses modern technology with exciting features that will give DT a competitive advantage over its rivals who are using analogue technology.

c) This is a business level strategy that seeks to open up a sustainable cost advantage over competitors and then using the low cost as a basis for either under pricing competitors and gaining market share at their expense or earning a higher profit margin by selling at the going market price.

This strategy may be very effective when

- Price competition among rival sellers or providers is the dominant competitive force.
- The industry's product is standardized.
- There are few ways to differentiate the products
- Most buyers use the product in the same way
- buyers incur low switching cost when changing suppliers
- buyers are large and have significant bargaining power

d) (i) Under an intensive distribution strategy the firm distributes its products using all available distribution channels – wholesalers, retailers, distributors etc with a view to ensuring a wide penetration of its products.

(ii) The product of DT is a mass consumed product which is demanded by millions of consumers scattered throughout the country. An intensive distribution strategy is therefore appropriate for DT's products.

e) Growth strategies to be considered

3 Other Growth Strategies

(i) Market development

(ii) Product development

(iii) Diversification

(iv) Integration

(v) Joint Ventures

QUESTION 2

(a) Strategy evaluation is the process whereby managers consider alternative strategies and compare them to find out the one that can best take advantage of opportunities and minimize the threats posed by the environment.

(b) (i) Suitability is a strategy evaluation criterion which attempts to measure how far proposed strategies fit the situation identified after environmental analysis.

A number of factors can be considered in evaluating the suitability of a strategy:

- How far or the extent to which it overcomes the resource weaknesses in environmental threats
- The extent to which it exploits company's strengths and environmental opportunities for example, can it be used by existing staff? Does it fit their skills?
- Whether it fits with the organizations objectives. Would it achieve profit targets?
- The extent to which it fits with the future changes in the environment.

(ii) Feasibility the assessment of feasibility is concerned with whether the strategy can be implemented based on the available organizational resources.

- Whether it can be made to work in practice
- Whether it can be financed
- Whether the necessary market position can be achieved and whether the necessary skills will be available
- Feasibility criterion also indicates whether competitive reactions can be coped with
- It also reveals whether or not appropriate technology will be available.

(iii) Acceptability Criterion

This is concerned with expected outcomes for example, the extent to which it will be in line with expectations of stakeholders and the returns on risk.

Some of the factors to be considered in evaluating acceptability are:

- the financial performance in terms of profitability
- how the financial risk will change
- whether it will affect the interests of stakeholders eg consumers, employees and shareholders
- whether it will fit the existing systems.

QUESTION 3

(a) Strategy implementation has to do with all activities involved in the execution of a strategic plan.

(b) The key activities involved in strategy implementation are as follows:

i. Decide who is to implement the strategic plan. This involves deciding on the strategic implementors in the organization and defining the role of each person. In some organizations, in Ghana, strategy implementation is entrusted to a strategic implementation committee made up of representatives of various departments. In others, it is entrusted to a strategy planner who is required to coordinate the implementation in various departments.

ii. Develop policies, procedures and budgets to implement the strategic plan.

- Policies refer to general statements that guide decision making in an organization. Where there are no policies guiding certain activities to be implemented under the strategic plan, these must be developed.

Policies guide the actions of all employees in the implementation of strategies agreed upon.

- Procedures detail out step-by-step actions to be carried out to implement specific activities. Where there are no procedures to cover some activities these should be developed by the strategy implementators.

- Budgets define precisely how much money is required to implement the strategic plan. Annual budgets allocate resources and authorize expenditure required to implement various aspects of the strategic plan.

iii. Develop an effective organization structure. Organization structure often defines the formal pattern of relationships that should exist among members of the organization and allocate duties to various departments. Strategic plans sometimes require changes in these patterns of relationships and may require changes in the allocation of duties. The strategic planners should therefore ensure that they develop an organization structure that suits the strategic plan. Example if the strategic plan settles on a backward integration and acquisition strategy, there should be a corresponding organization structure which will make it possible to implement these strategies.

iv. Create the right organization culture. Most strategic management writers suggest that strategic planners need to adopt a culture that supports the implementation of the strategic plan. For example, if the organization adopts cost reduction as a strategy, it should adopt and promote changes in employee work ethics, attitudes and practices (culture) that supports this strategy.

v. Communicate the strategy. To ensure that employees understand the strategic plan and are committed to its implementation, management should communicate details of the strategic plan to all employees through media such as company publications, meetings, committees, notice boards, special events and the intranet.

vi. Lead and motivate staff to implement the strategic plan. Management needs to create an environment that will influence and induce employees to implement the strategic plan. These include financial incentives, providing conducive working environment, better salaries, training, promotions, challenging jobs etc.

QUESTION 4

(a) (i) Resources are inputs that an organization uses to produce outputs in the form of products or services. These resources may be tangible, eg plant and equipment, or intangibles, eg brand names, patents and technological know-how.

In terms of strategy, sustainable resources (those which cannot be easily copied, imitated) are more useful because they help the organization to achieve competitive advantage.

(ii) Capabilities refer to the organizations ability to utilize the resources effectively. An example of a capability is the ability to bring a product to market faster than competitors.

Such capabilities are embedded in the routine activities of the organization and are not easily documented as procedures. Thus they are difficult for competitors to replicate.

(iii) Core competences are <u>qualities</u> that an organization develops over time which help it <u>to deliver better satisfaction to its customers</u> than do its competitors. They are a combination of resources and capabilities.

(b) Resources, capabilities and core competences are related in terms of the following:

(i) A combination of the first two produces core competencies which enable innovation, efficiency, quality and customer responsiveness.

(ii) It ultimately creates a competitive advantage for the organization.

QUESTION 5

A business environment may be defined as the actors and forces which influence the achievement of the objectives of the organization.

These actors are within the organization and they include the resources, the people and what they can do. They are controllable.

Some of the actors and forces can also be found outside the organization and they include customers, competitors, suppliers and creditors, among others. They are closer to the organization and can affect the business or be affected by it. The actors and forces in the wider environment are the most uncontrollable and they include political, economic, socio-cultural and technological factors.

It is important to note that these external factors are always changing and will bring either threats or opportunities to a business organization

Reasons why a business must understand its environment.

(i) To be able to make decisions regarding changing customer attitudes, whether favourable or unfavourable. This organization has to remain in business.

(ii) To know what competitors are doing so as to act or react appropriately.

(iii) To be able to know or understand whether suppliers will continue to remain reliable and trustworthy.

(iv) To predict government policies, laws and regulations and how they are likely to affect the organisation.

(v) To predict changes in the economic indicators such as inflation and interest rates and how these can affect the business.

(vi) To understand how changing socio-cultural factors can affect the business. Examples of these are educational levels, family status, religion and so on.

(vii) To understand how technology is likely to change and how new technology is likely to affect the business.

The businessman must also understand his internal strengths and capabilities. That is the amount of resources and the extent to which they can be used to take advantage pf opportunities and avoid or reduce threats posed by the external environment.

When strengths and weaknesses are matched (SWOT Analysis), managers are able to devise strategies that enable them to take advantage of opportunities and reduce the threats posed by the environment. This allows the organisation to survive and grow in a changing environment.

* Candidates must discuss each point made.