THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

NOVEMBER 2008 EXAMINATIONS
(PROFESSIONAL)

PART 2

STRATEGIC MANAGEMENT
(Paper 2.7)

Attempt question one (1) and any other three (3) from Section B

TIME ALLOWED: 3 HOURS

SECTION A: CASE STUDY

QUESTION 1

<u>Read the following carefully and answer ALL the questions that follow:</u>

Coxy Metal Fabricat Ltd (CMF) is a metal company located in Accra. The company was incorporated as a private limited liability company in 1980 and started commercial production in 1981 with an installed capacity of 500,000 tonnes. The company manufactures coils, flat sheets, discs and aluminium roofing sheets.

The company was set up during Ghana's real estate construction boom when the demand for aluminium roofing sheets and aluminium related building components exceeded demand. Within three years of its incorporation CMF exceeded its installed capacity and the company embarked on an ambitious growth strategy.

In view of space limitations at its present location the company expanded by acquiring other aluminium products manufacturing companies located in Kumasi and Takoradi. The acquired companies were often distressed with low profits and poor management. CMF invested heavily in turning around these companies to make them profitable within three years.

By 1992 the company grew into a huge conglomerate producing additional products like louvre blades, aluminium rolled formed sheets and household aluminium holloware.

In 1993 the company decided to venture into the exploitation of the bauxite deposits at Kyebi in a joint venture with Indian investors. The new venture was critical to CMF's survival because of the dwindling supply of raw materials from VALCO, its main supplier. CMF corporate strategists felt that investment in bauxite exploration and an aluminium smelter will guarantee constant supply of its raw materials for the next thirty years and provide alternative source of supply to VALCO which is likely to close down because of huge cost of energy.

The new venture increased the company's labour force to 2,000; boosted its image in Ghana and improved on its profits. By the end of 1994 fiscal year, the company was judged the most profitable company in Ghana with a profit after tax of over ¢500 billion.

The company's performance was also boosted by the generally stable macro-economy between 1986 – 1993 in Ghana and a stable industry in which CMF commanded nearly 90% market share.

To consolidate its commanding lead in the market, CMF reorganized its operations in 1997 into a matrix structure which gave the managers in charge of specific profit centres greater autonomy, and boosted morale. The company also introduced very attractive compensation packages which attracted Ghana's brightest young people to the company.

The macro economic situation suddenly changed in the late 1990's when the then government's policies led to a steep rise in inflation, instability in the exchange rate and unreliable energy supplies. The situation impacted negatively on the bottom line of most companies who relied on CMF for supplies and led to severe cut in demand for CMF products. VALCO also cut supplies to the company because of the severe energy situation. CMF was forced to find alternative source of supply at a greater cost.

From the year 2000 several events conspired to further threaten the position of CMF.

- There was a change in government. The new government liberalized the economy further and allowed the importation of several aluminium products into the country, especially, from China and India.
- The government imposed a development levy on all companies in the aluminium industry. This took a heavy toll on CMF's profits.
- A large number of new-breed competitors emerged on the local scene. These small 'wayside' companies imitated CMF products and sold thousands to customers as CMF products.
- New rules introduced by the Custom Excise and Preventive service (CEPS) increased the time used to clear goods from the port. This made it difficult for CMF to meet the deadlines of the major customers.
- A new Lebanese company emerged in the industry. The new kid on the block used a Computer Aided Manufacturing System which produced better quality products than what CMF offered.

The effect of these developments was a massive fall in CMF's market share from 90% to 25%. In 2006, CMF suffered a heavy loss for the first time since its inception. Further checks on the finances of the company revealed that it was facing serious liquidity problems.

Required:

a) Identify **five (5)** external environmental factors which affected the operations of Coxy Metal Fabricat Ltd.

(5 marks)

b) Explain the term Matrix Structure. What are its advantages?

(15 marks)

c) Why did CMF adopt a joint venture and acquisition strategy? What factors influence an acquisition strategy?

(10 marks)

d) Suggest **four (4)** ways by which the company can improve on its liquidity situation.

(10 marks)

Total: 40 marks

SECTION B

<u>Answer any three (3) questions from this Section</u>

QUESTION 2

To be successful a business manager can no longer do things in the way he/she has always done them. A successful manager must have a powerful weapon to cope with a hostile environment, the process of strategic management.

a) Why is strategic management important to organizations?

(6 marks)

b) Differentiate between the **three (3)** levels of strategy.

(9 marks)

c) Outline **five (5)** characteristics of strategic issues in organizations.

(5 marks)

Total: 20 marks

QUESTION 3

a) MTS Investments, a non-alcoholic beverage manufacturer in Ghana, has decided to go international by investing in five West African countries. What alternative strategies should the company adopt to enter these markets?

(10 marks)

b) What possible risks should companies going international take into consideration when entering into international markets?

(10 marks)

Total: 20 marks

QUESTION 4

a) What does SWOT analysis mean?

(6 marks)

b) Why is SWOT analysis important?

(2 marks)

c) Describe how an organization can carry out SWOT analysis.

(12 marks)

Total: 20 marks

QUESTION 5

a) Explain **four (4)** qualities a strategist should consider in setting organizational objectives.

(6 marks)

b) One of the strategic operations decisions a company must make is whether or not to outsource some of its operations.

(i) What is outsourcing? Give **three (3)** examples of organizational activities usually outsourced.

(5 marks)

(ii) Explain **three (3)** reasons for the popularity of outsourcing.

(9 marks)

Total: 20 marks