SOLUTION – STRATEGIC MANAGEMENT NOVEMBER 2008

Case Study

QUESTION 1

COXY METAL FABRICAT LTD

a) Dwindling supply of raw materials from suppliers

- The energy crises
- Worsening macro economic environment in Ghana
- Competition from china and India
- Development levy and taxes
- Competition from small companies in Ghana
- Problems with clearing goods from the harbour

b) This combines functional and product type of departmentation in the same organization structure. Features of a matrix structure are as follows:

- Project managers in charge of specific operations are given considerable autonomy to run the projects on behalf of top management. These managers have direct reporting relationship with functional heads and the Chief Executive of the organization
- Project and functional lines of authority are overlaid.
- Subordinates have a dual reporting relationship with the project manager and their home base function

Advantages

- It provides autonomy to project mangers and motivates them
- Facilitates cooperation, conflict resolution and coordination of related activities
- It ensures early completion of project by minimizing bureaucracy
- It allows the organization to maximize the utilization of the expertise of professionals especially engineers.

c) CMF adopted a joint venture acquisition strategy because of the following reasons:

(i) to increase its capacity and

(ii) to overcome the problem with space at its present location

(iii) to develop new product

(iv) to ensure constant supply of raw materials.

The factors that influence a joint venture or acquisition strategy are as follows:

- cost of the new business
- availability of cash to finance the acquisition
- possibility of product development or new product development exists
- if the new acquisition will improve the company's profitability
- if the new acquisition will improve its competitive position
- if the new acquisition will help to take advantage of opportunities
- if there exists a need to introduce a new technology quickly
- If the distinctive competences of the firms complement each other well
- If the new acquisition or joint venture will bring new expertise.

d) 4 ways to improve liquidity problem:

- Negotiate for Trade Credit from suppliers
- Speed up collection from debtors
- Improve inventory control
- Issue shares
- Assessing correct operations and close down non-profitable section(s)

QUESTION 2

(a) Importance of Strategic Management

Strategic management is considered important to organizations because of the following:

(1) It is involved in many of the decisions that managers make. Most of the significant current business events reported in the various business publications involve strategic management.

(2) Strategic planning gives organizations specific goals and provides their employees with unified vision. It provides an organization with consistency of action.

(3) In general, companies with formal strategic management systems have higher financial returns than do companies with no such system.

(4) Strategic management enhances the problem prevention capabilities of organizations. This is because it promotes interaction among managers at all organizational levels.

(5) The strategic management process forces managers to be more proactive and conscious of their environment. It gets managers into the habit of thinking in terms of the future.

(b) Three Levels of Strategy

There are three main levels of strategic management. These are corporate level, business level and functional level..

(1) Corporate–Level Strategy

Corporate-level strategies integrate and coordinate all the firm's activities and are the responsibility of senior management. They define the very nature of the business, the lines of activity in which the organization is to be engaged, the overall allocation of physical, human and financial resources, and the firm's general long-term goals.

(2) Business-Level Strategy

Business-level strategies dovetail the operations of divisions or other subsidiary units into the corporate plans that result from corporate strategies. For organizations in multiple businesses, each division or subsidiary will have its own strategy that defines the products or services it will offer, the customers it wants to reach, and how to utilize divisional resources. The creation of strategic business units is one way of organizing divisional/subsidiary strategy formulation processes.

(3) Functional-Level Strategy

Functional-level strategies are concerned with specific operational areas such as marketing, human resources and finance. For organizations that have traditional functional departments, these strategies need to support the business-level strategy.

(c) Dimensions of Strategic Decisions

Certain decisions facing an organization are strategic and, therefore, deserve attention of strategic management. The following dimensions are typical of strategic issues:

(1) Strategic issues require top-management decisions since strategic decisions cut across several areas of a firm's operations, they require top-management.

(2) Strategic issues require large amounts of the firm's resources. Strategic decisions involve substantial allocation of people, physical assets, or money that either must be redirected from internal sources, or secured from outside the firm.

(3) Strategic issues often affect the firm's long-term prosperity. Strategic decisions apparently commit the firm for a long time, usually five years; nevertheless, the effect of such decisions often lasts much longer.

(4) Strategic issues are future oriented. Strategic decisions are based on what managers forecast, rather than on what they know.

(5) Strategic issues usually have multifunctional or multibusiness consequences. Strategic decisions have complex implications for most areas of the firm.

(6) Strategic issues require considering the firm's environment. All business firms exist in an open system. They affect and are affected by external conditions that are largely beyond their control. Therefore, to successfully position a firm in competitive situations, its strategic managers must look beyond its operations.

QUESTION 3

(a) Alternative Strategies a company may adopt to enter these markets are as follows:

(i) Exporting
(ii) Licensing
(iii) Overseas production
(iv) Acquisitions
(v) Management Contracts
(vi) Franchising

(i) Exporting
This involves producing the goods in the company's home country and exporting the goods to another country.

(ii) Licensing
The company can grant rights to another firm in the host country to produce and/or sell the product on its behalf.

(iii) Overseas production
This involves producing goods in the host country through a joint venture with one or more firms to produce the products.

Another form of overseas production is setting up an overseas manufacturing subsidiary which may be wholly owned or involve some local equity participation.

(iv) Acquisitions
Acquisitions have to do with the purchase of a company already operating in the host country.

(v) Management Contract
Here MTS can use part of its personnel to assist a firm in a host country for a specified fee and period of time

(vi) Franchising

(b) Possible Risks
These include the following:

(i) Differences in culture and language

(ii) Cost involved in entering the new market

(iii) Differences in laws and government policies

(iv) Difficulty in attracting the right caliber of staff in the host country

(v) Socio-cultural constraints such as attitude towards managers, view towards achievement, attitude towards risks and change

(vi) Difference in currency may pose a danger

(vii) Restrictions on the remittances of profits

(viii) Problems with political stability of the host country.

QUESTION 4

(a) SWOT analysis means an analysis of the strengths, weakness, opportunities and threats that affect organizational performance.

- Strengths are any activities the organization does well or any resources that it has available
- Weaknesses are activities the organization does not do well or the resources it needs but does not posses
- Opportunities are characteristics of the external environment that have the potential to help the organization achieve or exceed its strategic goals.
- Threats are characteristics of the external environment that may prevent the organization from achieving its strategic goals.

(b) Importance of SWOT Analysis
The importance of SWOT analysis is underlined by the fact that it brings the organization's strengths, weaknesses, opportunities and threats in order to identify a strategic niche that the organization might exploit.

- In the light of the SWOT analysis, management also re-evaluates the organization's current mission and objectives. Are they realistic? Do they need modification? Are we where we want to be right now?
- If changes are needed in the overall direction, this is where they are likely to originate. If no changes are necessary, management is ready to begin the actual formulation of strategies.

(c) Carrying out the SWOT Analysis
After analyzing the environment, management needs to identify strengths, weaknesses, opportunities and threats. This exercise can be summarized as the following:

(1) Identifying Strengths and Weaknesses

As already indicated, the analysis should lead management to a clear assessment of the organization's internal resources. These include capital, technical expertise, skilled workforce, experienced managers.

It should also point out the organization's capabilities in performing the different functional activities. These include marketing, production and operations management, research and development, finance and accounting, human resources management, etc.

Based on their understanding of these areas, management can determine their strengths or weaknesses as compared to other companies.

(2) Identifying Opportunities and Threats
Managers need to evaluate the environment to assess what can be learned in terms of opportunities that the organization can exploit and threats it faces. The general environment of the organization contains the sectors that have an indirect influence on the organization. The general environment includes socio-cultural changes, legal-political events, the economy, and technological developments. Other areas that might reveal opportunities or threats include pressure groups, interest groups, creditors, natural resources and potentially competitive firms.

(3) Matching strengths and weaknesses to the opportunities. Here management tries to use the organization's strengths to take advantage of the opportunities and to minimize the impacts/effects of threats, and to improve upon its weaknesses.

QUESTION 5

(1) Specific:
Managers should develop organizational objectives that are specific. Specific objectives indicate exactly what is to be accomplished, who is to accomplish it and within what time frame it is to be accomplished.

(2) Time-bound:
A good objective must indicate the period within which it should be attained.

(3) Achievable/Attainable:
Managers should establish objectives that are achievable. All organizational members should perceive organizational objectives as attainable. Workers who view objectives as impossible to attain may utterly ignore the objectives as an indicator of how they should apply their time and effort.

(4) Flexible:
Managers should establish objectives that are flexible. Objectives should be established with the understanding that they might have to be modified. Objectives should be adoptable

to unforeseen or extraordinary forecasts. Objectives are commonly changed in organizations as organizational environments change.

(5) Measurable:
Mangers should establish objectives that are measurable. A measurable objective, sometimes called an operational objective, is an objective stated in such a way that an attempt to attain it can be compared to the objective itself to determine whether it actually has been attained.

(6) Consistent:
Managers should develop objectives that are consistent in the long run and the short run. Long term objectives must be consistent with organizational mission and should represent targets to be reached within a three-to-five-year period. Short run objectives must be consistent with long run objectives and should represent targets to be reached within about one or two years. As a general rule, short-run objectives should be derived from and lead to the attainment of longer run objectives.

(7) Realistic:
In setting objectives managers must consider whether the organization has the necessary resources to accomplish the objective being considered.

(b) (i) Outsourcing refers to the transfer of in-house jobs to outside firms to reduce costs, take advantage of others' expertise and focus on what the contracting company does best.

Organizational activities that are usually outsourced include, recruitment and selection, information systems, data entry, distribution of correspondence to clients, accounting, legal work and after-sales services on appliances and equipment, payroll preparation, clearing manufacture of components, security.

(ii) 1. Specialist contractors can offer superior quality and efficiency. If a contractor's main business is making a specific product, it can invest in the specialist machinery, labour, knowledge and skills needed to make that component.

2. It frees capital that can be invested in core activities such as market research, product development, product planning. Marketing and sales.

3. Contractors have the capacity and flexibility to start production very quickly to meet sudden variations in demand. In-house facilities may not be able to respond as quickly because of the need to redirect resources from elsewhere.

4. It allows managers to make use of human resource at a lower cost. Again, it helps to meet the fluctuating human resource needs of the organization.