

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**MAY 2009 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

Read the following carefully and answer ALL the questions that follow:

COPING WITH COMPETITION – THE AFRICA EXPERIENCE

Africa Oil Company Limited (AOCL) was established in 1969 under the Companies Code, 1963 (Act 179) by a foreign oil conglomerate with an initial capital of £20,000.

In 1979, two Ghanaians acquired all the shares in the company and have remained the shareholders of the company to date.

The nature of AOCL's business as stated in its regulations include:

- a) Marketing of petroleum products throughout Ghana.
- b) Owning and operating strategic oil storage facilities.
- c) Provision of handling, haulage and transport services
- d) Any other business related to the production and sale of lubricants.

In addition to its core operations, however, AOCL has gone into the manufacturing and sale of lubricants and insecticides. A major source of revenue to AOCL has been the operation of rest stops across the country at its network of service stations. AOCL also obtains revenue from its vehicles maintenance training workshops targeted at its corporate clients.

The owners have since the mid 1990s been worried over what one senior manager described as "AOCL's continued relegation to the background in the Ghanaian oil marketing industry".

The fact however is that to remain relevant in an industry dominated by international giants such as Shell and Total, AOCL will have to face up to the challenges posed by:

- i) their better resourced well-known competitors within the industry
- ii) structural and policy difficulties, identified partly as being responsible for the current downturn
- iii) operational difficulties arising out of lack of adequate resources, internal inefficiencies and corruption
- iv) poor public perception and image as well as customer relations problems.

AOCL's poor competitive position is summarized in its recent annual report with a mere GH¢1.5 million declared as net income after tax when the industry leader could boast of close to GH¢30 million net income.

AOCL's market share was stated at 3%, a decline from the previous 5%.

Since the takeover, AOCL has had frequent changes in the composition of its Board of Directors.

Besides, the combined effect of inflation, exchange rate policy and other economic indicators has made competition even keener for AOCL. The regulatory environment has been strong such as the Energy Commission, the National Petroleum Authority and other agencies managing recent policy of deregulation.

AOCL has also had to deal with global challenges in the industry and the manipulations of the world oil industry by bodies such as the OPEC cartel.

At a recent meeting between the owners and the board of directors the following issues were considered.

- a) The adoption of low cost strategy
- b) Stepping up promotional activities and refurbishing existing facilities
- c) Setting up customer compliant bureau at its service stations
- d) Enhancing market research capability
- e) Integration of I. T. support systems to enhance easy storage and retrieval of data
- f) Dealing with internal problems such as waste and theft but also addressing staff morale issues and conditions of service

Industry watchers believe however that, to get over its difficulties AOCL may have to be more proactive.

Industry competitive forces, the key factors for success and the main drivers of change within the industry, they argue, should provide a better clue to AOCL's problems.

Required:

- (a) Carry out a SWOT Analysis of AOCL's current situation.
(12 marks)
- (b) Discuss the strategic implications of **four (4)** major competitive forces using Porter's five forces model.
(16 marks)
- (c) Identify and explain any **two (2)** corporate strategies which AOCL can use to revamp its operations.
(6 marks)
- (d) Explain **two (2)** primary activities of AOCL from the view point of the value chain concept.
(6 marks)

Total: 40 marks

SECTION B

Answer any three (3) questions from this Section

QUESTION 2

- (a) Discuss the **four (4)** key elements of managing corporate social responsibility.

(10 marks)

- (b) Explain the **four (4)** areas in which a company can measure the results of its social responsibility strategy.

(10 marks)

Total 20 marks

QUESTION 3

- (a) What is a generic strategy?

(2 marks)

- (b) Describe the **three (3)** generic competitive strategies that a company may employ.

(9 marks)

- (c) Identify **three (3)** common organizational requirements for each of the **three** generic competitive strategies.

(9 marks)

Total: 20 marks

QUESTION 4

- (a) Identify **five (5)** types of objectives that an organization can set for its long-term strategy.

(10 marks)

- (b) Suggest **five (5)** guidelines that a manager must consider in developing high-quality organizational objectives.

(10 marks)

Total 20 marks

QUESTION 5

- (a) Explain any **five (5)** critical issues involved in implementing a new strategy within an organization.

(10 marks)

- (b) Describe the Mckinsey's 7-S Framework that management can use for evaluating corporate strategy.

(10 marks)

Total: 20 marks