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CS PART III SECTION 6

STRATEGIC MANAGEMENT

THURSDAY: 23 May 2019. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

PIRATI LIMITED (PL)

Pirati Limited is a company engaged in the design, manufacture and marketing of gas cylinders, gas pressure gauges, gas pipes and regulators for both domestic and industrial consumers. The company's main market is the countries in the East African region but it also exports to the South and West African countries. PL's current investment in assets is about Sh.1.5 billion and its turnover in the year 2018 was Sh.100 million.

Sales have not been adequate to allow the company to break even and this has become a great concern to shareholders and the executive management.

There has been a general recession in the economy due to political turbulence. The company has witnessed a decline in market share and stagnation in prices over the last couple of years due to an influx of imported competing products. Many customers have been switching to cheaper imported products from Asia.

The company has received an offer of co-operation from a foreign competitor who is similarly placed in respect of product range and market positioning. The offer includes the following:

1. Transfer of a manufacturing line from the competitor to Pirati Limited.
2. Manufacture of a range of products by Pirati Limited for the competitor to the latter's specifications and brand name.
3. Marketing by the competitor.

Benefits that are expected to accrue to Pirati Limited include better utilisation of PL's installed capacity and appropriate financial compensation for manufacturing undertaking. The production manager of Pirati Limited has welcomed the proposal since it will enable the company make profits and navigate through the economic slump facing the economy. The sales manager is however pessimistic about the perceived rosy future outlook since PL is unable to clear inventories and its export markets in South and West African countries are becoming too competitive due to increased production and competition by companies based in the South and West African countries.

The Chief Executive Officer (CEO) of PL is studying the offer and has suggested that PL should divest from less profitable products in its product line. However, the strategy and planning manager has insisted that PL requires to explore other stability and growth strategies. He insists that the company has been too conservative, has a narrow product line and is inward looking and risk averse.

The CEO has issued a notice for a top management strategy meeting and has included the following agenda items:

- Strategic direction of PL in light of changing competitive environment.
- Growth strategies for the medium term.
- Competitive advantage.
- Appropriate strategic management tools and techniques for Pirati Limited.

In preparing for the meeting, the CEO has requested the top managers to take into account protectionist policy measures targeting imports that have been introduced by some neighbouring trading countries, diversification possibilities and integration strategies.

Required:

(a) Assess five functional synergies likely to occur in case Pirati Limited merges with the foreign manufacturer. (10 marks)

(b) Discuss five strategies that Pirati Limited could make use of to overcome the neighbouring countries import restrictions. (10 marks)

(c) Describe four instances when a divestment strategy could be more beneficial to Pirati Limited. (4 marks)

(d) Explain using Porter's five forces model, the factors that could impact on Pirati Limited's business operations. (10 marks)

(e) Examine six factors that could hinder successful implementation of strategies pursued by PL. (6 marks)

(Total: 40 marks)

QUESTION TWO

(a) With reference to industry life cycle, comment on the activities which take place at the:

(i) Growth stage. (2 marks)

(ii) Maturity stage. (2 marks)

(iii) Decline stage. (2 marks)

(b) (i) Define the term "global corporation". (1 mark)

(ii) Evaluate four benefits that firms could derive from global products standardisation. (4 marks)

(c) In the context of implementation of a learning philosophy in an organisation, distinguish between "learning intent" and "learning capacity". (4 marks)

(Total: 15 marks)

QUESTION THREE

(a) Distinguish between "business level plan" and "business level strategy". (2 marks)

(b) Discuss five ways of managing strategic alliances. (10 marks)

(c) State three strengths often associated with virtual organisations. (3 marks)

(Total: 15 marks)

QUESTION FOUR

(a) Explain the contribution of SWOT analysis to strategic planning. (4 marks)

(b) Discuss Henry Mintzberg's 5P's of strategy. (10 marks)

(c) With reference to strategic planning, explain the term "critical success factors". (1 mark)

(Total: 15 marks)

QUESTION FIVE

(a) Give four justifications of contingency planning in strategy evaluation. (8 marks)

(b) Identify seven merits of using Robert Kaplan and David Norton's Balanced Scorecard model in the strategy implementation process. (7 marks)

(Total: 15 marks)

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