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CS PART III SECTION 6

STRATEGIC MANAGEMENT

THURSDAY: 30 November 2017. **Time Allowed: 3 hours.**

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

QUESTION ONE

HEPO GROUP INC. (HGI)

Hepo Group Inc. (HGI), a Chinese refrigerators manufacturing company started operations in 1970. Min Lee took charge of the company in 1980 and his first action as the Chief Executive Officer (CEO) was to take a hammer and smash one hundred and twenty refrigerators because of their poor quality. This action was informed by a customer who had returned a faulty refrigerator to the factory. Min Lee and the customer went through the entire inventory of three hundred refrigerators looking for a replacement and in the process he discovered that his stock had a 40% failure rate. To emphasise importance of product quality to employees, the CEO would smash any refrigerator which had defective parts. For Min Lee to succeed, he had to pursue a global strategy. He was dedicated to producing quality products which could be sold globally.

Min Lee joined HGI when the company was in deep financial trouble with more than Sh.900 million in debts. By then, the company had only one product and 800 employees. Today, the company has over 10,000 employees working in various locations around the globe. The company manufactures 150 different products in over 16 categories ranging from air conditioners to mobile phones to vacuum cleaners and other electronics. It has manufacturing facilities in 13 countries. In addition to manufacturing, it also has 18 research, development and design centres around the world. On average it innovates one new product per month. Continuous innovation is the soul of HGI's corporate culture. Its products are now known globally for quality and innovation.

In Min Lee's push to make the brand global, HGI began sponsoring a basketball team now known as the Hepo Pushers. It also recently signed a sponsorship deal with the Lions Rugby League team and has become the marketing partner of a number of hockey leagues in many countries.

HGI was selected as the official home appliances sponsor of a recently held athletics championship. This type of exposure is likely to go a long way toward HGI's strategic goal of becoming a truly global brand.

Required:

(a) Evaluate four competitive advantages exhibited by HGI. (8 marks)

(b) Explain six benefits which could accrue to HGI from conducting environmental analysis. (6 marks)

(c) With reference to Min Lee, assess six characteristics of strategic leadership. (6 marks)

(d) Strategic posture is an approach company leaders take while applying business strengths to the current and long term needs of the market place.

With reference to the above statement and in the context of differences in the strength of pressure for cost reduction versus those for local responsiveness, illustrate four strategic postures which HGI could adopt in order to compete internationally. (10 marks)

(e) With the aid of a diagram, describe how Min Lee and the management team designed a strategic control system to ensure that the company's strategies were effective. (10 marks)

(Total: 40 marks)

QUESTION TWO

(a) (i) Explain the term "vertical integration strategy". (2 marks)

(ii) Discuss four reasons why a company might adopt the strategy in (a) (i) above. (8 marks)

(b) Argue five cases in favour of a stability strategy. (5 marks)

(Total: 15 marks)

QUESTION THREE

(a) Analyse three steps in the strategic planning process. (6 marks)

(b) Discuss the three levels of strategy. (6 marks)

(c) With respect to products and technologies, explain three aspects of innovation strategy. (3 marks)

(Total: 15 marks)

QUESTION FOUR

(a) Assess Michael Porter's business level strategies. (8 marks)

(b) Summarise seven management interventions central to strategy implementation. (7 marks)

(Total: 15 marks)

QUESTION FIVE

(a) Discuss five disadvantages of adopting cost leadership strategy in a highly competitive market. (10 marks)

(b) Analyse five risks associated with international expansion. (5 marks)

(Total: 15 marks)

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