CHARTERED ACCOUNTANTS EXAMINATIONS

PROFESSIONAL LEVEL

P5: STRATEGIC MANAGEMENT

WEDNESDAY 15 JUNE 2016

TOTAL MARKS – 100: TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.

2. This paper is divided into TWO sections:

   Section A: One (1) compulsory question.
   Section B: Four (4) Optional questions. Attempt any three (3).

3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.

4. Do **NOT** write in pencil (except for graphs and diagrams).

5. **Cell Phones** are **NOT** allowed in the Examination Room.

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

7. All workings must be done in the answer booklet.

8. Present legible and tidy work.

9. Graph paper (if required) is provided at the end of the answer booklet.

SECTION A

Question ONE (1) is compulsory and must be attempted.

QUESTION ONE (CASE STUDY)

Zambeef was incorporated in 1994, with limited capital, employing 60 staff, slaughtering 180 cattle per month in a small, rented abattoir, delivering meat in a Land Rover and selling the meat through 2 rented butcheries.

Since its incorporation as a small scale start-up business, Zambeef has, through both organic growth and acquisitions, become one of Zambia's largest agri-businesses with annual revenues of approximately US$275 million, and currently employs over 5,800 staff.

Zambeef was listed on the Lusaka Stock Exchange in 2003 and only carried out its first equity capital raise in 2008. Between 2003 and 2008, Zambeef recorded a compounded organic growth rate of over 20% in real terms.

In June 2011, Zambeef successfully concluded its dual listing on the Alternative Investment Market of the London Stock Exchange. The Banker magazine named Zambeef's US$55 million listing in London and rights issue in Zambia as 2012's 'Deal of the Year' in Africa for equities. The magazine commended the landmark listing for Zambeef, saying the company's initial public offering (IPO) on London's Alternative Investments Market in June 2011 was significant in many ways. "It marked the first time a company from the southern African country had listed internationally and was one of the few overseas African IPO's from outside the natural resources sector" - the Banker stated.

Zambeef continues to pursue a vertically integrated business model which provides strong foundations for growth and underpins margin capture and value addition, secures supply chain, and reduces risk and earnings volatility. The Zambeef group is principally involved in the production, processing, distribution and retailing of beef, chicken, pork, milk, dairy products, eggs, edible oils, stock feed and flour. The Group also has large cereal row cropping operations and is also in the process of rolling out its West Africa expansion and its palm project.

Zambeef's vision and strategy is to be the most accessible and affordable quality protein provider in the region and to increase the efficiency and capacity of its primary production facilities.

To achieve this, the Zambeef group continues to pursue a vertically integrated business model, from primary production to processing and distribution to retailing the finished products in a value-added form directly to the end consumer through its own extensive retail network. This ensures value-addition and margin capture throughout the value chain.

Required:

(a) Identify the business model that Zambeef has employed. Evaluate the benefits and concerns of this business model. (10 marks)

(b) Using the Value Chain Analysis, describe any two (2) primary activities and any three (3) support activities. (10 marks)

(c) Zambeef Plc. recorded a compounded organic growth rate of over 20% between 2003 and 2008 in real terms.

In light of the above statement critically assess any five (5) features that characterizes Zambeef as an Organic System.

(10 marks)

(d) Zambeef Plc. operated as a small scale start-up business for nine (9) years and later changed its legal status to that of a Public Limited Company and successfully listed on the Lusaka Stock Exchange in 2003.

In reference to the above statement evaluate any five (5) benefits that will accrue to Zambeef as a Public Limited Company. (10 marks)

[Total: 40 Marks]

SECTION B

Attempt any THREE (3) questions from this section

QUESTION TWO

(a) Resource planning at operational level requires the planner to put the detailed plan in a strategic framework by ensuring that three (3) central questions are addressed. State the three (3) questions with the help of a diagram. (5 marks)

(b) Assembling a capable management team is a cornerstone of the organisation - building task that influences serious strategic execution. This kind of influence is often referred to as strategic leadership.

Discuss any five (5) characteristics of strategic leadership that influence the direction of an organization that have been suggested. (15 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Explain the importance of the following in strategic implementation:

(i) Efficiency (1 mark)

(ii) Effectiveness (1 mark)

(b) Entrepreneurship is an important way of promoting innovation.
Critically analyse the five (5) ways in which an organisation can promote innovation among its employees. (10 marks)

(c) Corporate social responsibility is the expectation in society that companies are accountable for social and ethical effects of their actions.

Assess any four (4) areas a company might focus on in addressing societal concerns. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

While it is appreciated that strategic management is important, it would be wrong to assume that all aspects of strategic management are equally important in all circumstances. Organisations in different contexts are likely to emphasize different aspects of the strategic management process. Strategic priorities need to be understood in terms of the particular context of an organisation.

In light of the above statement, discuss the strategic priorities that could be found in the following types of organisations:

(i) The small business context (5 marks)
(ii) The multinational corporation (5 marks)
(iii) The public sector organizations (5 marks)
(iv) Voluntary or not-for-profit organizations (5 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Discuss alternative basic strategy-making styles used by managers in the process of formulating strategy. (10 marks)

(b) Discuss any two (2) advantages and three (3) disadvantages of joint ventures.

(10 marks)

[Total: 20 Marks]

END OF PAPER

JUNE 2016: STRATEGIC MANAGEMENT (P5)

SOLUTIONS

SOLUTION ONE

(a) Vertically Integrated Business Model

The Zambeef group is principally involved in the production, processing, distribution and retailing of beef, chicken, pork, milk, dairy products, eggs, edible oils, stock feed and flour. The Group also has large cereal row cropping operations and is also in the process of rolling out its West Africa expansion and its palm project.

To achieve this, the Zambeef group continues to pursue a vertically integrated business model, from primary production to processing and distribution to retailing the finished products in a value-added form directly to the end consumer through its own extensive retail network. This ensures value-addition and margin capture throughout the value chain.

A vertically integrated business model means that a business consolidates multiple steps in the typical distribution process. Instead of operating solely as a manufacturer, distributor or retailer, a vertically integrated company performs tasks commonly carried out by suppliers or trade buyers. Vertical integration has several pros and cons relative to specializing in one business function.

Forward Integration

In many cases, a company expands from a single trade focus to become vertically integrated. One way this can happen is for a manufacturer or wholesaler to carry out its own distribution processes to consumers. A manufacturer might decide to set up distribution centers and manage its own distribution arrangements with retailers, or even sell directly to consumers. In the case of Zambeef Plc, the company has appointed Shoprite Checkers as its strategic partner in retailing its products.

Backward Integration

The opposite approach to vertical integration occurs when a product reseller decides to acquire its supplier or start its own manufacturing or distribution operation. When a distributor engages in manufacturing, or a retailer engages in manufacturing or distribution activities, it is referred to as backward integration. Zambeef Plc has its own ranches in Chisamba where it grows the cattle for beef production and recently acquired Mpongwe Farms and controls its production processes.

Benefits

Vertical integration has a few core benefits. One is control. The more activities you carry out in the manufacturing and distribution process, the more control you have over the entire flow of goods until they reach the end customer. You may also benefit from lower costs. If you make goods, you only pay for the costs of manufacturing. When a wholesaler or retailer acquires goods from a manufacturer, a markup is added to the cost.

Concerns

A major concern of vertical integration is that it requires the company and its leadership to have expertise in multiple distribution channel activities. The roles of manufacturer, wholesaler and retailer are distinct. A manufacturer wanting to distribute its goods directly to customers must not only have production strengths, but also the ability to market and efficiently distribute goods.

(b) Porter divided internal parts of an organization into primary and support activities.

- **Primary activities** are those activities that directly contribute to the production of goods or services and an organization's provision to customers. Zambeef's primary activities include: production-related activities and marketing and sales activities.
- **Support activities** are those activities that aid the primary activities. Examples of such activities include: materials management, human resource management, information systems etc.

(c) Burns and Stalker studied management and economic performance in a series of electronics firms where the key to success was the ability to respond quickly to technological innovation. This led them to propose two 'ideal types' of management organisation, Organic systems and Mechanistic systems, which form the extremes of a continuum along which most organisations can be placed. Organic systems are more fluid forms of organisation appropriate to changing and uncertain conditions, where new and unfamiliar problems continually arise which cannot be broken down and distributed among the existing specialisms within the organisation.

Five (5) features of such systems are:

- Such systems are characterized by a flexible organizational structure.
- There is continual adjustment and re-definition of individual tasks with a constructive rather than restrictive view of the application of specialist knowledge.
- Interaction and communication occurs at any level in the organisation
- There are a range of different integrating mechanisms, such as liaison teams, to ensure cohesion.
- Such a system is seen as generating a higher degree of commitment to the organization's goals.

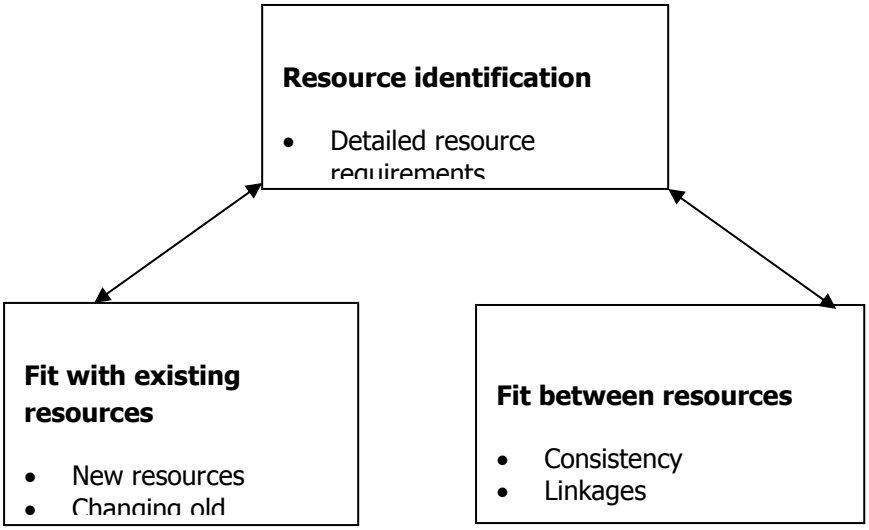
(d) The advantages of the Public Limited Company include the following:

- The company is a separate legal entity and as such the liability of shareholders is limited to the amount of shares they hold in the company.
- Its shares are freely transferable on the Lusaka Stock Exchange.
- It has assured continuity.
- It can raise more capital by the sale of shares and debentures to the public through the Lusaka Stock Exchange.
- It can easily borrow money from banks and other financial institutions.

- It can employ specialists in such fields as marketing, accounting and human resource management, which is more efficient.
- Its sheer size makes it possible for the company to buy modern equipment and technology

SOLUTION TWO

(a) Although resource planning at operational level is detailed, it is nonetheless important to conceive it in a strategic manner. In particular, it is important to understand how the detailed operational resource plans underpin in the strategies of the organisation. It is therefore helpful to put the detailed plan in a strategic framework by ensuring that three central questions are addressed.



Matching operational resource plans to strategies

- Resource identification – exactly what resources will a strategy require, and how should these resources be configured?
- Fit with existing resources – to what extent do these resources build on or are they a change from existing resources?
- Fit between resources – can the required resources be integrated with each other?

(b) Any five of the characteristics of strategic leadership

- **Vision, Eloquence and Consistency**

  One of the key tasks of leadership is to give the organization a sense of direction of a vision. The leader is also eloquent enough to communicate this vision to others within the organization in terms that can energise people and they consistently articulate their vision until it becomes part of the culture of the organization.

- **Commitment**

  A strong leader is someone who demonstrates commitment to his/her particular vision, often leading by example. Leading by example can mean doing what one preaches; this kind of commitment is a powerful signal to employees within the organization. If it is cost minimization the CEO is the first to do it.

- **Being Well Informed**

  Good leaders develop a network of formal and informal sources that keep them well informed about what is going on within their organization. They develop feedback-channels of finding out what is going on within the organization so that they do not have to rely on formal information.

- **Willingness to delegate and empower subordinates**

  Good leaders are good delegators. They recognize that unless they do delegate, they can quickly become overloaded with responsibilities. They also recognize that empowering subordinates to make decisions is a good motivational tool. Delegating also makes since when it results in decisions being made by those who must implement them.

  Although good leaders will delegate many decisions to lower level employees, they will not delegate those they judge to be critical to the future success of the organization under their leadership.

- **Astute use of Power**

  Good leaders tend to be very astute in their use of power, which means three things:

  First; Good leaders play the power game with skill preferring to build consensus for their ideas. Secondly; Good leaders often hesitate to commit themselves publicly to detailed strategic plans or precise objectives since in all probability, the emergency of unexpected contingencies will require adaptation. It is important to note that good leaders often have precise private objectives and strategies that they would like to see the organization pursue time and methods of accomplishment is not precisely stated. Thirdly; Good leaders do posse the ability to push through programmes in a piecemeal fashion. The successful leaders tries to push through his ideas, one piece at a time so that they appear incidental to other ideas, though in fact they are part of a larger programme or hidden agenda that moves the organization in his desired direction.

- **Decisiveness**

  Any manager of high standing must be one that is not afraid in making a decision. Data, consultation, personal intuition and past experience are useful tools to help you to be decisive. When you make a decision stand by it and be able to defend it.

- **Assertiveness**

  Assertiveness is a way of life where you make your own decisions and choices without feeling guilty and where you are in control, not those around you. Assertiveness ensures that you are able to command the respect of others, achieve your personal and professional goals and raise your self-esteem. Communicating

style may be Passive, passive/aggressive; aggressive and assertive (one will dominate)

SOLUTION THREE

(a) Importance of Efficiency and Effectiveness in the implementation of strategy:

- Efficiency: Deployment of resources in the best way possible through good corporate planning in order to avoid wasteful activities.
- Effectiveness: Correct use utilization of resources without wastage.

(b) Five (5) ways in which organisations promote innovation (Intrapreneurship) within the organisation:

- Encouragement for individuals to achieve results in their own way without the need for constant supervision
- A culture of risk-taking and tolerance of mistakes
- A flexible approach to Organisation that facilitate the formation of project teams
- Willingness and ability to devote resources to trying out new ideas.
- Incentives and rewards policy that support intrapreneurial activities.

(c) Milton Friedman argues against the concept of social responsibility. A business person who acts "responsibly" by cutting the price of the firm's product to prevent inflation, or by making expenditures to reduce pollution, or by hiring the hard-core unemployed.
Archie Carrol proposes that the managers of business organisations have four responsibilities: economic, legal, ethical and discretionary.

- **Economic** responsibilities of a business organisation's management are to produce goods and services of value to society so that the organisation may repay its creditors and shareholders.
- **Legal** responsibilities are defined by government in laws that management is expected to obey. For example, organisations are required to hire and promote people based on their credential rather than to discriminate on non-job-related characteristics such as race, gender, or religion.
- **Ethical** responsibilities of an organisation's management are to follow the generally held beliefs about behaviour in society. For example, society generally expects organisations to work with the employees and the community in planning for layoffs, even though no law may require this. The affected people may get very upset if an organisation's management fails to act to generally prevailing ethical values.
- **Discretionary** responsibilities are purely voluntary obligations a corporation assumes. Examples are philanthropic contributions, training the hard-core unemployed, and providing day care centres. The difference between ethical and discretionary responsibilities is that few people expect an organisation to fulfil discretionary responsibilities, where as many expect an organisation to fulfil ethical ones.

Other factors include:

- Eliminate pollutants and hazardous waste
- Market environmentally safe products and services
- Prepare for accidents and restore damaged environments
- Provide protection for employees who report environmental hazards
- Companies should appoint an environmentalist to the board of directors, name an executive for environmental affairs and develop an environmental audit of global operation.

SOLUTION FOUR

Organisations in different contexts are likely to emphasise different aspects of the strategic management process. For some organisations the major challenge will be developing competitive strategy; for others it will be building organisational structures capable of integrating complex global operations; for yet others it will be understanding their competencies so as to focus on what they are especially good at; and for still others it will be developing a culture of innovation. Strategic priorities need to be understood in terms of the particular context of an organisation.

I. Small business

'For a small business a major issue is the management of the growth. Successful small business grows out of the founder's entrepreneurial vision, but growth means the founder can no longer manage all the activities alone'. Obviously small businesses have fewer resources than their larger counterparts. Perhaps somewhat surprisingly, this means that, if anything, the importance of applying the elements of corporate planning effectively is even greater. Planning in the smaller business is often less formal than in its larger counterparts, but is often easier to communicate throughout the organisation. Often strategic management will be done by one person and indeed will often be carried out by the owner/manager. Finally, in the small business the character, skills and vision of its owners are likely to be much more significant in business success or failure.

II. Corporate strategy in the multi-national corporation

In contrast to the small business, the multi-national corporation often has substantial resources and is complex and multi-faceted. Multi-nationals often operate across a range of different product markets and, in addition, are often geographically dispersed. This entails the need for careful planning of structures and mechanisms for co-ordination and control. The widespread geographical coverage of such organisations also calls for the importance of the cultural and political elements of the environment which therefore become especially important in the planning process. Crucial to such organisations are the issues of centralisation versus decentralisation in structure and planning systems, together with the related issue of global versus local strategies.

III. Corporate strategy in public sector organisations

The public sector comprises a number of sub-sectors such as the nationalized organizational sector, government agency type organisations, and public service organisations such as hospitals, the police service etc. Each of these sub-sectors to some extent has its own special characteristics with regard to the application of the strategic management elements.

Perhaps the main difference in this type of organisation/context is the influence of political considerations and factors in the development of strategic plans. So, for example, public sector organisations are often constrained and/or directly influenced by political considerations. A related issue is that public sector organisations are very much more accountable for their decisions to outside parties and indeed, in the broadest sense, often to the public in general.

Decisions by managers in such organisations will often be taken in the context of political/regulatory requirements such as, for example, a requirement to buy from domestic suppliers. Finally, public sector organisations are often very formal and bureaucratic and for this reason may often be slow to respond to change.

IV. Corporate strategy in the voluntary and not-for-profit sector

As with public sector organisations, it is important to recognize that this sector contains many different varying types of organisation. One of the key differences in this sector is that values and expectations of different stakeholder groups will play a very important part in the process of strategic management. Moreover, the range of stakeholder groups is often much wider and sometimes potentially conflicting compared to the profit making sector. Funding for organisations in this sector may come from several sources including, for example, funding bodies and public donations, and, because of this, openness and effectiveness in the uses of funds are often a high priority. Because, by definition, many of the organisations in this sector do not have profit objectives, clear objective setting is sometimes difficult and indeed objectives may often conflict. Finally, in the past it has sometimes been the case that the management of companies in this sector have perhaps lacked some of the planning skills of their profit making sector counterparts. However, in recent years this has changed and now managers in this sector are just as skilled in the strategic planning process and indeed often use the same concepts and techniques developed in the profit/commercial sector organisations.

SOLUTION FIVE

(a) There are variations in the organizational process of formulating strategy and this bring about variations in the way the manager, as chief entrepreneur and organisational leader, personally participates in the actual work of strategic analysis and strategic choice.

The four basic strategy-making styles used by managers are:

- **The Master Strategist Approach** – Here the manager personally functions as chief strategist and chief entrepreneur, exercising strong influence over the kinds

and amount of analysis conducted, over the details of strategy. This does not mean that the manager personally becomes the chief architect of strategy and wields a proactive hand in shaping some or all of the major pieces of strategy. The manager acts as strategy commander and has a big ownership stake in the chosen strategy.

- **The Delegate It to Others Approach** – Here the manager in charge delegates the exercise of strategy-making to others, perhaps a strategic planning staff or a task force of trusted subordinates. The manager then personally stays off to the side, keeps in touch with how things are progressing via reports and oral conversations, offers guidance if need be, smiles or frowns. Recommendations are informally run by him/her for reaction, then puts a stamp of approval on the "strategic plan" after it has been formally presented and discussed and a consensus emerges. But the manager rarely has much ownership in the recommendations and, privately, may not see much urgency in pushing *truly hard* to implement some or much of what has been stated in writing in the company's "official strategic plan."
- **The Collaborative Approach** This is a middle approach whereby the manager enlists the help of key subordinates in hammering out a consensus strategy that all "the key players" will back and do their best to implement successfully. The biggest strength of this style of managing the formulation process is that those who are charged with strategy formulation are also those who are charged with implementing the chosen strategy. Giving subordinate managers a clear-cut ownership stake in the strategy they subsequently must implement enhances commitment to successful execution.
- **The Champion Approach** – In this style of presiding over strategy formulation, the manager is interested neither in a big personal stake in the details of strategy nor in the time-consuming tiresomeness of leading others through participative brainstorming or a collaborative "group wisdom" exercise. Rather, the idea is to encourage subordinate managers to develop, champion, and implement sound strategies. Here strategy moves upward from the "doers" and the "fast-trackers." Executives serve as judges, evaluating the strategy proposals reaching their desks. This approach is especially well-suited for large diversified corporations where it is impossible for the CEO to be on top of all the strategic and operating problems facing each of many business divisions.

(b) Any two (2) advantages and three (3) disadvantages of joint ventures.

Advantages

- Joint ventures permit coverage of a large number of countries since each one requires less investment.
- It reduces the risk of government intervention.
- Provide close control over operations.
- When with an indigenous firm it provides local knowledge, and can also allow firms a route into markets they might otherwise struggle to enter.

- It is a learning exercise, as each party gains access to other's competences
- It is often an alternative to seek to buy or build a wholly owned manufacturing operation abroad.

Disadvantages

- Profits from the venture are shared, reducing the amount earned by each partner.
- It may not be fully supported by its parent companies due to the feeling of none ownership.
- Gained confidential information by partners could subsequently be used competitively by one partner against another.

END OF SOLUTIONS