



ZAMBIA INSTITUTE OF CHARTERED ACCOUNTANTS

CHARTERED ACCOUNTANTS EXAMINATIONS

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PROFESSIONAL LEVEL

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P5: STRATEGIC MANAGEMENT

SERIES: JUNE 2012

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

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### **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 compulsory question.  
Section B: Four 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. The marks shown against the requirement(s) for each question would be taken as an indication of the expected length and depth of the answer.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.

## **SECTION A**

### **QUESTION ONE**

**This question is compulsory and must be attempted.**

Indaba Corporation has been in existence for the past 40 years. The firm had experienced unprecedented growth between 10 to 30 years of its existence. Growth has however, stalled in the past 5 years, averaging 3% compared to 12% during the golden years. The change in management after the reorganization that was carried out 3 years ago has not changed fortunes.

The board met to address the various issues facing the firm especially the slow growth in its long tradition product lines. One of the resolutions was to appoint the new CEO who was head hunted and had already assumed office. The other resolution was to engage a consultant to work with the new CEO in improving strategic management, especially in the area of objective realization. The last key resolution was to significantly increase investment in information communication technology.

The new CEO having attended a seminar on strategic planning came across the concept of gap analysis. Given the pressure from the board to ensure that objectives are realized, the CEO has called upon the consultant to provide more information and see how the concept can assist the firm in objective realization.

The new CEO has also started reviewing the investment into information technology to find ways in which this investment can better be monitored to ensure that the firm gets a return on the same investment. The challenge the CEO faces is how this can be implemented by managing the investment into ICT. The amount to be invested is expected to increase from K2 Billion to K4 Billion in the next 2 years as one of the attempts to close the planning gap in the immediate future. It is also expected that this investment will make the firm transform its business in the way it produces products and markets them to customers. One key feature has been the investment in enterprise resource planning solutions.

#### **Required:**

- (a) Differentiate between fixed gap analysis and continuous gap analysis in the context of Indaba Corporation. (5 marks)
- (b) Demonstrate how growth strategies can be pursued by Indaba Corporation in closing the planning gap. (8 marks)
- (c) Demonstrate how the pursuit of strategies in accordance to Ansoff Matrix will differ from growth strategies in closing the planning gap. (9 marks)
- (d) Recommend the approaches that Indaba corporation can take to manage its investment in information technology that it intends to significantly increase in the next 2 years. (9 marks)
- (e) Recommend how the information technology department can be re-structured in an attempt to improve the return on investment on the money spent and to be invested in the next 2 years. (9 marks)

**(Total: 40 marks)**

## **SECTION B:**

**There are four questions in this section. Answer any three (3).**

### **QUESTION TWO**

Financial institutions in Zambia have seen transformation in their products and services. This transformation is likely to continue in the near future for instance, the proliferation of personal loans that were not there a few years back. The product life cycle and industry life cycle are important models to master in being at the cutting edge of industry.

#### **Required:**

- (a) Differentiate the application of product life cycle from that of the industry life cycle. (5 marks)
- (b) Evaluate the usefulness of industry life cycle model in scenario planning. (5 marks)
- (c) Analyze how a Bank such as Zambia National Commercial Bank (Zanaco) can benefit from industry life cycle analysis. (10 marks)

**(Total: 20 marks)**

### **QUESTION THREE**

International Hotels group has decided to benchmark the implementation of the balance scorecard with Boston Petroleum. This is because in the market where the firm operates, Boston Petroleum has a well evolved accounts payable system. The Managing Director of International Hotels needs help to understand what the balanced scorecard under what is called functional bench markings. (No report format is required.)

#### **Required:**

- (a) Explain the balance scorecard concept. (5 marks)
- (b) Demonstrate how the implementation of the balanced scorecard differs between two firms in two different industries (for example hospitality industry versus gas and petroleum industry). (8 marks)
- (c) Why is the balance scorecard least used by most firms in Zambia? (7 marks)

**(Total: 20 marks)**

#### **QUESTION FOUR**

There is a lot of debate about the relevance of some management models due to changes in the market forces from the time the models were introduced and where the market forces are now. It is therefore, necessary to challenge the assumptions on which these models were based. One example of such models is the 'value chain' and '5 forces model.'

#### **Required:**

- (a) Analyse the impact of information technology on the value chain model. (10 marks)
- (b) Evaluate the extent to which you agree with Porter that the modern business environment and information technology invalidates most of the assumptions about the five forces model. (10 marks)

**(Total: 20 marks)**

#### **QUESTION FIVE**

Sky Software manufactures a wide range of software for use by both corporate and individual clients. The software includes: accounting, customer relationship management, enterprise resource planning and other specialised software for corporate and individual use.

The way the sales teams are organized has created challenges in the way clients are serviced, especially the corporate clients.

- (a) Analyse the challenges faced by Sky software manufacturers as a result of organizing the sales team around various product lines. (6 marks)
- (b) Recommend the changes that can be made to the way the sales team is organized in an attempt to make it more efficient and effective. (6 marks)
- (c) Identify and discuss the resistance to change that is likely to be encountered during implementation of the recommended changes in (b). (8 marks)

**(Total: 20 marks)**

**END OF PAPER**

## **P5 SUGGESTED SOLUTIONS**

### **SECTION A**

#### **SOLUTION ONE**

#### **MARKING KEY**

- a) – 5 marks for correct distinction between fixed and continuous

Indaba Corporation can benefit from gap analysis. Gap analysis is the analysis of how the firm can pursue strategies to close the gap between extrapolated current performance and the long-term objective.

- The fixed gap analysis is the one that has remained the same for a period of time.
- The continuous gap analysis carries out changes to the gap from year to year.

A clear distinction between fixed and continuous gap analysis must be appreciated by the firm. Indaba can pursue the closing of the gap that has remained stagnant for years. This may either prove easy or difficult depending on the changes that have taken place within the organization and the external environment.

Indaba can also continue to revise the gap based on changes in current results that can either make the objective farfetched or too easy to achieve. There is a possibility that the firm pursued fixed gap analysis and this could have led to complacency, especially during the glory years. The firm now requires revising the gap in regard to current performance and its impact on the long term objective when extrapolated.

- (b) – 8 marks of 2 marks each per 1 point of 4 types of growth strategies

- Link and demonstrate how they close the planning gap

Growth strategies can be pursued to close the planning gap. The speed at which this is achieved will depend on the type of growth strategies.

Below is the demonstration of how growth strategies can close the planning gap.

- (i) Organic growth-this is where the firm ploughs back its profits, uses debt or its reserves to grow. For the firm because of its size and strategic posture in the market, this may not be the best way to close its planning gap especially after years of stagnation.
- (ii) Mergers-this is where the firm combines resources on a 50/50 combination to create a new enterprise. The pulling of these resources offers much needed capital to break barriers of entry or fund many projects. The increased size also offers a bigger and greater market strategic posture. The combination of these objectives can help the firm close the planning gap much quicker. The biggest challenge in mergers closing the planning gap lies in the cost of integration and overcoming the cultural barriers. This is something Indaba must resolve to close the planning gap.
- (iii) Acquisition-this is where Indaba takes over another firm. This can be done by seeking firms with strategic advantages where Indaba is weak or has limitations. These can range from cash resources to markets. For example if the entry into a new market is a way to close the planning gap, then

acquiring a firm that has presence in that market will be the fastest way to close the planning gap. The advantage with this strategy is that it is easy to go past the cost of integration and cultural barriers as Indaba can impose these on the acquired entity.

- (iv) Franchising-the other strategy Indaba can pursue in closing the planning gap relate to offering its technical know- how and systems to someone with the money/capital to undertake its activities at a monthly fee. The Franchisee rides on Indaba brand name, management competence and operational knowledge. This strategy is cheaper than the above 2 strategies.

My recommendation is that Indaba considers acquisitions as a way to closing the planning gap.

(c) –Identify Ansoff Matrix strategies

- 9 marks of 1.5 marks per 1 point of 6 differences demonstrated of how they differently close the planning gap in comparison to growth strategies

The Ansoff Matrix offers Indaba strategic choices that work in a different way in which they close the planning gap compared to growth strategies. Ansoff Matrix looks at the direction of competition and growth as defined by current or new products versus current or new markets serviced by the firm.

The strategies are as follows:-

- (i) Market penetration-Indaba can consider the possibility of increasing the market share in markets where there is still potential. Withdrawing from unprofitable markets can help redirect resources to markets that are profitable. Given the scenario, this may prove a difficult way to close the planning gap.
- (ii) Product development-Indaba can develop new products or acquire firms that have new products the firm can use to improve its profitability. Apple did it with strategic movement into smart phones.
- (iii) Market development-acquisitions can still be pursued into newer markets by buying firms that can help distribute its products. This can see increased revenues.
- (iv) Diversification-related diversification can be pursued by Indaba by looking at other businesses that are either related or unrelated to current operations. This is considered to be very risky and the returns may not be worth it.

Growth strategies can be pursued in the areas of product development and market development. This many help the firm close the planning gap.

- (d) - 9 marks of 3 marks per approach, e.g. 3 Es/Performance pyramid/Moon and Fitzgerald/Measures/Targets

The firm can take various approaches in managing the investment in information technology:

The 3 Es-this is called the value for money concept.

- Economy looks at spending the minimal expense per quality standard,
- Efficiency looks at the usability of the technology in the firm and
- Effectiveness focuses on whether ICT is helping the firm achieve its objectives.

Performance pyramid looks at how the firm can cascade the ICT Vision into departmental and day to day operations.

Moon and Fitzgerald model looks at developing key performance indicators around financial, internal customer satisfaction, flexibility, innovativeness and responsiveness of the ICT department.

Targets can still be set in terms of performance expectations in areas like speed, efficiency and user satisfaction.

- (e) – 9 marks – 3 marks per approach.

- 3 marks for use of cost centre approach
- 3 marks for use of profit centre approach
- 3 marks for use of investment centre approach

The investment in ICT is significant. Introduction of responsibility accounting can help in achieving the above approaches to measuring the performance of this investment.

Cost Centre-this is where the responsibility is to ensure that expenditure is in line with budget. This is inward and ideal for less significant expenditure in ICT.

Revenue Centre-this is where the department is expected to charge for services to users. It's the right step in the right direction to begin to look at the marketability of the department's services.

Investment Centre-this is the ideal as the department is also responsible for the investment, costs and profits. A return on investment target will be set. The department must control not just its budget, but the competitiveness of its services to user departments.

**SECTION B**  
**SOLUTION TWO**  
**MARKING KEY**

- (a) – 5 marks for clear distinction

The analysis of the product can be done from both the product life cycle perspective and the industry life cycle aspect.

The product life cycle models the phases the product goes through from introduction in the market to the time the product is withdrawn from the market.

The industry life cycle models the general industry phase from the time the industry emerges to the time the industry dies. The industry life cycle is into the overall supply and demand of the products/services in the industry by all firms and total demand patterns as opposed to supply and demand for the individual or single product as represented from one firm and the direct customers it serves.

- (b) – 5 marks of 1 mark per point evaluating the usefulness of industry life cycle in scenario building

The usefulness of industry life cycle in scenario planning is as follows:

It provides the variables that can be used in scenario planning. These will range from customer tastes, demand patterns, supply patterns, competitors, range of products, PEST factors and 5 Forces.

It helps to identify the trends in the changes of these variables. For example trends in customer taste or demand patterns.

It helps to evaluate the usefulness of these variables in the way the firm deals with these variables over time.

The impact of say competition will vary from firm to firm. Strategies will have to be formulated to manage the variables. Changes in customer taste can be managed through product developments.

It helps in making scenario planning relevant and useful to the firm under consideration.

- (c) -10 marks of 2 marks each per benefit of industry life cycle to Barclays

The benefits of industry life cycle to Barclays are as follows:

Industry life cycle will help identify the supply and demand shifts for products and services that the bank supplies.

Industry life cycle will help in understanding the way 5 forces of competition are affecting the firm and other competitors.

Industry life cycle helps the bank to take an external view to its business by focusing on the general environment, competitive environment, customers and suppliers.

The industry life cycle can provide information about the shifts in the tastes of customers that can help the bank avoid prolong products and services that are out of taste.

The industry life cycle can help the bank to better manage the portfolio of their products across various markets and customer groups in the country.

### **SOLUTION THREE**

#### **MARKING KEY**

- (a) – 5 marks for explanation of balance scorecard concept

The balanced scorecard is a performance management tool, system and approach that help firms to link vision and strategy to day to day operations by developing key performance indicators cutting across financial and non financial measures. The key performance indicators will cover the financial perspective, customer perspective, internal perspective and learning and innovation perspective.

- (b) – 8 marks of 2 marks for each point contrasting between 2 industries

International Hotels would like to benchmark with a petroleum company which is acceptable under the functional type of benchmarking. This will not apply under other types of benchmarking such as competitive and strategic benchmarking that would rather identify firms in the same or very similar industries.

Factors to take into account when looking at the implementation of balanced scorecard of different industries is as follows:

International Hotels must appreciate that the critical success factors for the two industries are different. The impact of this is to drive the development of key performance indicators that will not be the same.

Secondly, the two industries will have different cultures. This will affect the way the change management from current performance management system to balanced scorecard is implemented.

The choice of consultants will be driven by those who have experience in each industry. International Hotels may not have to rely on the same consultant for Boston Petroleum but look for the consultant who has experience in the hospitality industry.

Lastly the type of software chosen must reflect the nature of industry. This is very important in development of certain key performance indicators in areas such as internal perspective.

Though the above differences are worth highlighting, what Boston will learn are the key steps in the way the balance scorecard is carried out. This is likely to be standard regardless of industry.

- (c) – 7 marks of 1 per reason

Extremely few firms may be implementing the balanced scorecard in Zambia for the following possible reasons:

- i) May lack knowledge about what the balanced scorecard as a tool and system is.
- ii) The lack of local consultants to assist firms go through the change management process when introducing the same system.
- iii) The cost and time it takes to introduce the system may discourage a few.
- iv) The availability of skills to continue thereafter with the system use may be a question mark in some firms.
- v) Some firms may lack management support in helping the accounts function introduce the system.
- vi) There are few firms from which to benchmark from. This may make it difficult for early adopters to know any best practices in the market.
- vii) Generally as a country we are in the introductory stage in the life cycle of the use and application of the balanced scorecard.

The above factors are worth taking into account when introducing the balanced scorecard.

## **SOLUTION FOUR**

### **MARKING KEY**

- (a) -10 marks of 2 marks each per value chain activity of minimum 5 activities awarded for demonstrating how ICT is being used in each value chain activity

Information Communication Technology has affected the value chain as follows:-

- (i) Inbound logistics-these can now be carried out by use of computer tracking systems to inform the organization on the actual whereabouts of the items being brought in.
  - (ii) Operations-most manually performed tasks are now being carried out by information technology. Software will include computer aided manufacturing, flexible manufacturing systems and computer aided design.
  - (iii) Outbound logistics-similar to inbound logistics.
  - (iv) Procurement-databases can be created about suppliers making for easy comparison prices.
  - (v) Marketing and sales-the use of software such as customer relationship management can help the firm build stronger links with the customers which help in customer retention.
- (b) –10 marks of 2 marks each per Force of maximum 5 forces identifying the assumptions and demonstrate how these are being invalidated

How ICT is invalidating the Porters 5 Forces model:

Rivalry amongst current competitors-the assumption that only firms in the local market can pose a threat is not correct as ICT can help firms across boarder easily break entry barriers via e-commerce.

Threat of new entrants-the assumption that existing firms can collude to retaliate against the new entrant. ICT can make the new entrant collude with existing firms to drive some firms out of the market by building rival products targeted at eliminating some firms out of the market.

Substitute products-the assumption that customers can easily switch to these provided they were either cheaper or of superior quality. It's very easy to use ICT to build features in the substitute products in the existing products. For example, how cell phones are able to do what computers does.

Customer power-the assumption that these are static-it's possible for the customer to become the supplier.

Supplier power-the assumption that it's difficult to have information on all suppliers. ICT make it possible through search engines to build a lot of information about suppliers.

Though this remains a vital tool, it's important to note that the times have changed and the tool must be modified to suit the modern business environment.

## **SOLUTION FIVE**

### **MARKING KEY**

(a) -6 marks of 2 marks per point of 3 challenges

The challenges of organizing the sales team around product lines includes:

- 1) Different types of salesmen from the same organization having to visit the same client as they are all selling specialized products.
- 2) The sales teams having to defend their product lines even when these have stopped being popular with clients due to fear of sources of employment if these were halted to be produced.
- 3) Refusal by sales persons to understand other products.

(b) -6 marks of 2 marks per point

The changes would include:

- 1) Organize according to customer so that each sales person can sell all the Sky software range of products.
- 2) Give sales team training across product lines.
- 3) Build an integrated solution to clients than specialized solutions.

(c) -8 marks of 2 marks each per resistance

The resistance to above changes will include:

- 1) Resistance to build new product knowledge due to specializations.
- 2) Resistance to go beyond selling and begin to embrace marketing.
- 3) Resistance to relocate as offering of integrated solution may mean some teams having to change town.
- 4) Resistance to working with teams from other product lines.

These challenges will need to be addressed if the structural change will be successful.