



CHARTERED ACCOUNTANTS EXAMINATIONS

PROFESSIONAL LEVEL

P5: STRATEGIC MANAGEMENT

WEDNESDAY 18 2014

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. 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.
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 is compulsory and must be attempted.

QUESTION ONE

- (a) In 2002 SAB succeeded in acquiring a major brand in a developed market when it acquired 100 per cent of Miller Brewing Company, the second largest brewery in the USA, and becoming SABMiller in the process. The acquisition gave the group access, through a national player, to a growing beer market with the world's largest profit pool, and at the same time diversifying the currency and geographic risk of the group. This acquisition made SABMiller the second largest brewery by volume in the world.

SABMiller appointed Norman Adam, previously Head of its Beer South African business, as Head of Miller who introduced the traditional SAB system of employee performance rating, making clear that employees who consistently score unsatisfactorily would be dismissed. This was a considerable change from Miller's previous system of performance rating which routinely rated all employees at the highest level. SABMiller also announced that there would be rationalisation of Miller's product portfolio from 50 brands to 11-12, meaning that market share would be down before it could go up again.

Having established a substantial presence in developed economies, the focus of SABMiller's strategy seems to have shifted back to developing economies. The 2006 report notes that "Our ability to succeed in developing markets (a skill we owe to our African origins) has proven to be a competitive advantage on the world stage".

The business in South Africa saw ongoing momentum in consumer spending with lager and soft drinks sales continuing to rise. While the growth in volumes moderated in the second half, earnings continued to benefit as consumers traded up to the premium segment. To meet the demands of changing consumption patterns, SAB miller introduced new sales and distribution systems and enhanced the flexibility of their production facilities.

The licensing of more Shebeens is bringing these previously unofficial outlets into the retail mainstream. This means that they can operate more professionally and the firm can deliver to them directly which in turn raises the performance of the business. During the year the organisation trained over 6000 newly-licensed tavern operators in business skills.

The business in Africa continued to grow, helped by broader distribution and a clearer segmentation of the organisation's brands. Volumes in Botswana were affected by the devaluation of the currency, but results were good in Tanzania, Uganda and Mozambique. The firm sees plenty of opportunity to keep improving efficiency in these relatively underdeveloped countries and the outlook for Africa as a whole is encouraging.

The worldwide trend towards premium brands makes this segment the fastest growing in the global beer market. Within the segment, it's the international brands that are growing most rapidly at nearly four times the rate of the beer market as a whole. To compete in this segment SABMiller has a portfolio on international brands, each with its own distinct personality and attributes. While sales volumes are still

small, they are growing rapidly. The largest brand, Miller Genuine Draft has been particularly successful in Russia while Pilsner Urquell is growing in Europe and the USA. Peroni Nastro Azzurro was recently repackaged and re-launched with a major global campaign and is growing particularly strongly in the UK.

Compared to mainstream and economy brands, the premium segment requires greater nurturing and specialised approaches to marketing, sales and distribution. These capabilities are now being refined across the group – notably through a new programme to establish common techniques and disciplines for rolling out international premium brands in new markets. The programme was piloted during the year in Poland and the lessons learned are now being applied.

The 2006 report shows a change in emphasis stressing the need for consolidation rather than acquisition and emphasising the importance on global portfolio to ensure 'that it is balanced geographically and exposes the organisation to markets at different stages of development – one that offers long-term growth in the form of new, developing markets while generating cash from profitable developed markets'.

Having survived and grown for over hundred years, SABMiller had emerged onto the world market at a time when it appears that the twenty-first century may prove globally as turbulent as the twentieth century was in South Africa. The company notes that its operational productivity, which is already being benchmarked by competitors, cannot be a source of sustained competitive advantage. Its Africanist culture and fearlessness in tackling emerging markets is much less inimitable. However, as developed world tastes shift to wine and spirits SABMiller may find that the developing world is increasingly coveted by its competitors, with the battle with Anheuser-Busch over Harbin a foretaste of what is to come.

Adopted from: Johnson, Scholes and Whittington, (2010) Exploring Corporate Strategy

Required:

- (i) Using PESTEL Framework, discuss the impact of three (3) external factors on SABMiller, explaining how the organisation has responded to the impact. (6 Marks)
 - (ii) Conduct a partial SWOT analysis to establish SABMiller's strengths and weaknesses. (6 Marks)
 - (iii) Establish SABMiller's distinctive resources/core competences and determine the extent to which they match its Critical Success Factors. (6 marks)
 - (iv) Evaluate acquisition as a strategy that SABMiller used for growth as well as entering international markets. (12 marks)
- (b) Corporate Social Responsibility is described as "the intelligent and objective concern for the welfare of society". This concern should restrain individuals and corporations from behaviour and activities that are ultimately destructive, no matter how immediately profitable such behaviour or activities might be. Such concern must additionally lead firms to making a positive contribution to human betterment."

Describe and give examples of any five (5) areas of concern in which firms in Zambia practice Corporate Social Responsibility. (10 marks)

(Total: 40 Marks)

SECTION B

Answer any THREE questions in this section.

QUESTION TWO

Explain the role and significance of the following in strategy formulation:

- (a) The Boston Consulting Group 'growth/share' matrix (5 Marks)
- (b) Globalization (5 Marks)
- (c) Benchmarking (5 Marks)
- (d) Competitor analysis (5 Marks)

(Total: 20 Marks)

QUESTION THREE

- (a) Explain the role of Information Technology (IT) on strategy implementation. (10 Marks)
- (b) What is the relationship between Marketing Strategy and Corporate Strategy? (10 Marks)

(Total: 20 Marks)

QUESTION FOUR

Many large businesses consist of a corporate parent and a number of SBUs. The role of the corporate parent is to manage the scope of the organisation in terms of products and international diversity. There are a number of strategic tools that have been developed to assist the decision process in the management of SBUs. These tools help the corporate parent to manage its portfolio of SBUS against three criteria:

- Balance in relation to markets and corporate needs.
- Attractiveness in terms of profitability and growth.
- Strategic fit in terms of potential synergy and parenting capability.

The balance and attractiveness criteria are addressed by a range of matrix based tools. Strategic fit is the subject of a single model, the Ashridge portfolio display.

Required:

- (a) How can the Ashridge model be used to assess the benefits SBUs can derive from a corporate parent playing the corporate parental developer role? (16 marks)
- (b) Briefly explain Four (4) major strategies that can be used by a corporate parent when managing its SBUs' portfolio. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Gazebo is a Kitwe based company operating fuel filling stations. The company also operates mini marts and takeaways to provide service to the travellers who might want such services. After operating for six years the Managing Director discovers that every time they assess the performance of the company they face problems with the measures used. The first one is that the measurement of performance currently used only concentrates on the financial performance of the organisation ignoring the operational issues. The other problem is that it concentrates on the historical performance ignoring the company's potential performance.

Required:

Demonstrate how the Balanced Scorecard framework can be used to resolve the Managing Director's concerns (12 marks)

- (b) Explain the role of Critical Success Factors (CSFs) in Strategic Management. (8 marks)

(Total: 20 marks)

END OF PAPER

Suggested Solutions –P5

SOLUTION ONE

a)

- i) The PESTEL framework is used to analyse the macro environmental that affect the operations of organisations. The influences emanate from Political, Economic, Socio-cultural, Technological, Ecological and Legal factors. With reference to SABMiller, they are social, economic and legal factors that have had an impact on operations of the brewing conglomerate.

Social Factor

The changing consumption patterns of the consumer, with most of them preferring premium brands has led to an increasing demand of SABMiller's premium bears and wines. Responding to this increase in demand, SABMiller had to introduce new sales and distribution systems and enhanced flexibility of their production facilities.

Legal factor

The licensing of more Shebeens is bringing previously unofficial outlets into the retail mainstream. This means that they can now operate more professionally and hence increasing business for SABMiller. SABMiller can deliver beer to them directly. In response to this opportunity for growth SABMiller has even trained 6000 newly-licensed tavern operators in business skills.

Economic Factor

The devaluation of currency in Botswana posed a great threat to SABMiller. This has a direct impact on profits. However the organisation has been able to manage this threat through operating in different countries. When there was a devaluation of currency in Botswana, countries like Tanzania, Uganda and Mozambique were doing well.

- ii) **SABMiller's strengths**

- Brand name
- Corporate culture
- Broader distribution networks
- Portfolio of international brands, each with distinct personality which makes the organisation compete favourably on the international market
- Very clear segmentation of the organisational market
- Fearlessness in tackling emerging markets

SABMiller's weakness

- It has not fully developed its capabilities of nurturing premium brands, giving them the specialised marketing they need.

- iii) **SABMiller's Distinctive resources/core competences**

Distinctive resources and core competences are those that underpin competitive advantage. They are valuable to the organisation and customers, rare, difficult to imitate and the organisation has systems and processes in place to support them. Critical success factors are the few areas in an organisation where things must go right for it to flourish. In the case of SABMiller one can say that the critical success factors, going by the proposed strategy of consolidation are; sustainable competitive advantage and customer retention.

SABMiller's distinctive resources are its brand name and corporate culture.

SABMiller's **brand name** is of value to the organisation because it acts as a strong marketing tool. It is also valuable to the customers because it makes them identify the products with ease. It is rare in the sense that there is only one organisation by that name no other organisation can register itself under the brand name. It is difficult to imitate because it is the brand is protected through patents. It can therefore be classified as a distinctive capability offering the organisation sustainable competitive advantage.

SABMiller's **corporate culture** is valuable to the organisation and customers in that it determines how things are done in this organisation. It is rare that no other organisation can do operate in exactly the same way SABMiller does. It is difficult to imitate as it is an intangible capability. The organisation has processes and systems in place that fully support this culture and as a result it can be classified as a distinctive capability that can give an organisation sustainable competitive advantage.

b) Advantages of acquisition as a growth strategy

- *Quick access to markets* - The Acquisition of Miller by SAB gave the group access, through a national player, to a growing beer market with the world's largest profit pool.
- *Spreading of risk* - Acquisitions enabled the group to diversify the currency and geographic risk. This means that devaluation of currency in other regions where it has its operations can be cushioned by the firms in regions that are stable. A good example is when volumes in Botswana were affected by the devaluation of the currency, this was cushioned by results that were good in Tanzania, Uganda and Mozambique
- *Increased market share* - Acquiring other large firms e.g. Miller Increased the organisation's market share making it the second largest brewery by volume in the world. This enable the organisations to enjoy benefits of economies of scale
- *Exposure to markets which at different stages of development* — some that offer long-term growth in the form of new, developing markets while generating cash from profitable developed markets.

Disadvantages of Acquisition as a growth strategy

- *Corporate culture clash* - SABMiller appointed Norman Adam as Head of Miller who introduced the traditional SAB system of employee performance rating making clear that employees who consistently score unsatisfactorily would be dismissed. This was not readily welcomed by Miller's employees who were used to a performance rating system which routinely rated all employees at the highest level, and this could probably lead to de-motivation amongst employees.

- *Changes in the structure of the organisation-* Rationalisation of Miller's product portfolio from 50 brands to 12 resulting in the market share going down for a while, meant also that some employees were going to be laid off and some changing their position in the organisation. This can also lead to de-motivation on the employees part and hence negatively affect productivity

b) Areas of concern in Zambia can include any of the following:

i) The problems of the world society:

- the opportunity to contribute to the industrialization in underdeveloped countries;
- the willingness to undertake joint ventures rather than insist on full ownership;
- the willingness to share management and profits in terms not immediately related to the actual contributions of other partners;
- the training of nationals for skilled jobs;
- the willingness to enter business to meet social as well as material needs;
- Cooperation in matters of taxes, bribery or corruption.

ii) The problems within a country's borders:

- Occasional disasters such as floods, earthquakes, drought or famines.
- Environmental consequences of manufacturing processes.
- Promotion of underprivileged groups.

iii) The problems of the community in which the company operates:

- Impact of new investments on existing cultures and traditions
- The need for social amenities offered to the community
- Employment opportunities to the local community

iv) Industry-specific problems:

- environmental concerns arising from disposable products;
- road maintenance in the case of heavy users of roads;
- ethical and moral issues in the provision of services

v) The quality of life within a company:

- the welfare of employees;
- the quality of goods and services being offered to the public;
- the failure or reluctance to acknowledge and recognize the efforts which do not have a direct bearing on visible profits;
- the freedom afforded to the individual employee to participate in social causes beyond the corporate effort.

SOLUTION TWO

each part carries 5 marks

- (a) The Boston Consulting Group growth/share matrix – competences and resources are intended to assess a firm's capability to prosecute its chosen. Once opportunities have been identified, the next step is to **validate** the choice among the several opportunities by determining whether the organization has the ***capacity to prosecute the preferred choice***. In many organizations, a firm's capability is determined by the extent to which a firm's diverse units or functions are linked with each other in order to enhance the corporate value system. It is thus useful that all units are balanced as a whole since strategy has to do with the overall direction of an organization.
- The growth/share matrix assesses a firm's strategic balance by analysing on one hand a firm's relative market share (as a strength/weakness) and on the other hand the firm's rate of growth (as an opportunity/threat) in its environment. This can be illustrated in form of a diagram, depicting a matrix in which four scenarios are shown. The matrix allows a product or a Strategic Business Unit (SBU) to be analysed in relation to its (i) relative competitive standing (market share) and in relation to (ii) the growth rate of the market,

The Growth/Relative Share Matrix

		High	Low
Market Growth Rate	High	Star	Question Mark
	Low	Cash Cow	Dog
		Relative Market Share	

- A Star is a product that enjoys a high market share in a growing market. It could mean that its costs are reducing at a faster rate than its competitors and that it has the ability to grow further
 - A Product Child is a product that is in a market that is growing fast but it lacks resources to exploit the opportunities in the market and can only do so if it seeks resources
 - The Cash Cow has a high market share but faces a low market growth rate. While it has the resources, the opportunities are limited and it may thus provide cash to other units, such as, the Problem Child
 - Dogs have low market share and also face a declining market share. If kept on, they may drain the resources from performing units and should be deleted.
- (b) Globalization - The concept of globalization refers to the conceptualizing of the countries of the planet (globe) as constituting the external environment in which a firm may undertake its operations. In strategic management, the analysis of the external environment is intended to identify opportunities and threats. Pursuant to this objective, the significance of globalization to a firm is that it may present opportunities. Countries seek relations with other countries because no country is an island and that progress because international relations have to be mutual, implicit in seeking opportunities that are in countries necessarily calls for reciprocal action from other countries. Thus, in seeking opportunities with other countries, competition may also result when a country opens its doors to other countries. Thus the strategic impact of globalization is two-fold. One is that it creates opportunities of doing business in new markets, and grow beyond a nation's borders may be pursued as a strategic objective. Second and paradoxically, in as much as opportunities for new markets overseas are created through economic liberalization, national economies also become exposed to foreign competition by way of imports and entry of foreign investment.
- (c) Benchmarking – this refers to tracking the practice of other companies in order to determine the best practice so that it can develop distinctive competence. It presupposes that a firm lacks the resources and capabilities that contribute to superior efficiency, quality, innovation or responsiveness to customers and that it should seek to learn from other companies what it lacks in building and maintaining the competence which give other firms a competitive advantage over it.
- (d) Competitor analysis – in strategic management, competition is readily recognized as a threat to a firm. The firm must accordingly devise competitive strategies that will enable it to move against the circumstance of competition. To do this, it must not only have an understanding of who it is competing against, their characteristics and their capabilities but must clearly devise strategies to fend off competition. Thus, the focus of competitor analysis is three-fold:
- to provide insight into the nature and characteristics of competition
 - to generate insights into competitors' strategies, and
 - to provide an informed basis for developing one's strategies to sustain/ establish advantage over competitors.

There are three perspectives to understanding the nature of competition. The traditional understanding of competition is offered by what is known as the *Industry perspective of competition*. This refers to the rivalry that ensues when "as a group of firms are offering

a product or class of products that are close substitutes of each other.” The variables that have been used to define/classify competition have been the structure of the industry (number of sellers, relative market shares) and the degree of differentiation that exists between the competing companies and products.

The second perspective is what is known as the marketing perspective of competition. In the industry perspective of competition, the focus is on companies making the same product or offering the same service. In contrast, in the market perspective of competition, the focus is on companies that try to satisfy the same customer needs or that serve the same customer groups. A classic example is that of the railway companies that viewed competition as other rival railway companies fighting against each other when the competition was in the form of customers looking for other and better ways they could satisfy their need for transportation. This was represented by the speed and comfort that was associated with planes, buses or cars.

The three generic competitive strategies are:

- i) Overall cost leadership – the organization concentrates upon achieving the lowest costs of production and distribution so that it has the capacity of setting its prices at a lower level than its competitors.
- ii) Differentiation – the organization given emphasis to a particular element of the marketing mix that is seen by customers to be important and at result, provides a meaningful basis for competitive advantage.
- iii) Focus – the organization concentrates its efforts upon one or more narrow market segments, rather than pursuing a broader – based strategy. By doing this, the firm is able to build a greater in-depth knowledge of each of the segments, as well as creating barriers to entry by virtue of its specialist reputation. Having established itself, the firm will typically then, develops either a cost-based or differentiated strategy.

SOLUTION THREE

a) Role of Information Technology (IT)

IT is a key resource in an organization’s implementation of strategy and in providing an organization with a competitive advantage:

- It can be instrumental in shaping and integrating resources and capabilities in a way in which its competences are difficult to imitate and thus give a firm a singular competitive advantage. When IT skills enable a firm to block the movement of its key programmes, it can protect its core competences. However, it must also be conceded that IT vastly improves the way in which data can be searched, sifted, sorted and packaged to increase the pace of learning by potential competitors.
- It can facilitate improved availability and quality of information and lead to an improvement in an organization’s competence by (a) reducing the cost of processes;

(b) improving the quality of processes; and (c) improving the recording of operations and sales.

- It enables companies to integrate knowledge and skills across functional areas so that they can deliver new differentiated goods and services to customers in a coordinated and efficient manner
- It can facilitate innovation by improving the base of knowledge from which employees can draw in problem solving, and by facilitating knowledge sharing.
- It can improve efficiency by removing or minimizing cultural barriers and the incidence of unnecessary bureaucracy. For instance, it reduces the need for management hierarchy to control organizational activities, e.g. the development of e-mail and organization-wide corporate intranets is breaking down barriers that have traditionally separated departments.
- It has also enabled firms to integrate various activities to respond better to customer needs.

b) Marketing Strategy and Corporate Strategy

Cravens (1986:77)¹ once upon a time observed that "*Understanding the strategic situation confronting an organization is an essential starting point in developing marketing strategy.*"

Johnson and Scholes (1997:10)² have defined corporate strategy as "*the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholder expectations.*"

Cravens' observation attests to the belief that marketing strategy derives from an institutional strategy. This view is supported and complemented by Johnson and Scholes who observed that the marketing objective must fit into the direction of the organization. The critical role marketing plays in strategic management is one of providing a standard by which to determine the success of any strategy. The ultimate measure for judging the success of any strategy is profitability. Marketing is relevant to strategy because the principal function of marketing is to satisfy markets (customers) at a profit. Specifically, marketing strategy involves two issues: identifying which market segments are profitable, and administering the marketing program to the identified market segments in a way which will bring profit. Accordingly, to generate the desired profit, marketing plays crucial roles in anticipating the needs of the market and stakeholder expectations, exploiting competitive advantage, molding requisite resources, constantly monitoring and analyzing the marketing environment in order to identify opportunity that will enhance profitability and/or risk that will undermine profitability.

A major orientation of shareholders is economic, that is, to realize an economic return on the investment they have put in the business. In the short run, this mission is so pressing and urgent that the performance of strategists (or those charged with running a business) is judged by the extent they achieve the economic objective. A basic purpose of any business is to create and maximize value to its owners. The success of a business is therefore measured by the ability to make a return to the shareholders. Specific strategies in this regard are growth strategies that are intended to generate profit for

¹ Cravens, D.W. (1986), 'Strategic Forces Affecting Marketing Strategy', *Business Horizons*, Vol. 29, No. 5, September-October

² Johnson, G and Scholes, K (1997), *Exploring Corporate Strategy*, London: Prentice Hall

the owners. The principal function of marketing is allied to this: to satisfy customers at a profit. As Doyle (1994: 7-9)³ has put it:

"...satisfied customers are the source of all profits and shareholder value. Customers can choose from whom they buy, and unless the firm satisfies them at least as well as competitors, sales and profits will quickly erode. Customer satisfaction should therefore be a prime objective and measure of the performance of managers." What all this implies is that the marketing objective of delivering satisfaction at a profit is but a sub-goal of the corporate mission of seeking revenue for an organization's owners.

In the evolution of corporate strategy, competition was long recognized as a central feature of the business environment, and competitive strategy as a primary aim of corporate strategy. At the same time, competition was recognized as a marketing variable. While competition is regarded as a threat in strategic management, it is in fact rooted in markets. Because competition is a risk to a company's profitability, marketing must play its part to mitigate the risks of competition by identifying competitors, assessing the strengths and weaknesses of competition and devising appropriate competitive strategies to contain competition and hence preserve a company's profits. Competitive strategies mean actions intended to win over markets from rivals in order to advance the cause of strategy. In recognition of this, strategy may be defined in terms of markets (Andrews, 1971)⁴

Resources and competences are intended to provide a firm with the capability to prosecute a strategy. There are a number of marketing resources and competences required to implement strategy successfully. Among them are the network of dealers and distributors intended to facilitate the delivery of a product or a service; marketing personnel who interact with customers in order to make them *aware* of a product/service or the organization itself, *persuade* them to buy a product or service or *remind* them of the existence of a product or service; and marketing competences in, for example, after sales service.

The marketing environment is part of the larger environment from which strategists attempt to identify opportunities and threats. The needs and preferences of customer influence the disposition to purchase or not to purchase a firm's product. While a favourable disposition may be considered an opportunity, an unfavorable disposition may be considered a threat.

SOLUTION FOUR

a) The Ashridge portfolio display

The Ashridge model assesses the benefit SBUs can derive from a corporate parent playing a parental developer role. It identifies four types of business: Heartland, Alien, Ballast and Value trap.

The Ashridge portfolio display is concerned with strategic fit, i.e. the role of the corporate parent and the suitability of the range of SBUs it manages. The concept is

³ Doyle, P. (1994), Marketing Management and Strategy, London: Prentice-Hall

⁴ Andrews, K.R. (1971), *The Concept of Corporate Strategy*, Homewood, Illinois: Dow Jones-Irwin.

based on the parental developer approach to the role of the corporate parent. The principles embodied in the model can be approached from two directions.

- Corporate parents should build portfolios of businesses that they can develop effectively.
- Corporate parents should seek to build parenting skills that are relevant to their portfolios.

The coherence of the corporation overall may be assessed by reference to two variables, "feel" and "benefit". Refer to the diagram below.

- Feel being the degree of fit between the parent's skills, resources and other characteristics as well as the SBU's CSFs
- Benefit being the degree of fit between the opportunities the SBUs present for the parenting and the parent's skills resources and other characteristics.

Heartland businesses: (High benefit, high feel)

They have critical success factors that fit the parent's resources and competences and provide opportunities for good use of them. They can therefore benefit from the attention of the parent without risk of harm from unsuitable developments

Ballast businesses: (Low benefit, high feel)

Are well-understood by the parent but need little assistance. They would do just as well if they were independent businesses. They should bear as little central cost as possible.

Value trap businesses: (high benefit, low fit)

Provide good opportunities for parenting, but these opportunities do not relate to the SBU's critical success factors. They should only be retained if they can be moved into the heartland; this will require the parent to acquire new skills and resources.

Alien businesses: (low benefit, low fit)

They have no place in the portfolio. They need the attention of a skilled parent, but the actual parent does not have the skills and resources required to help them.

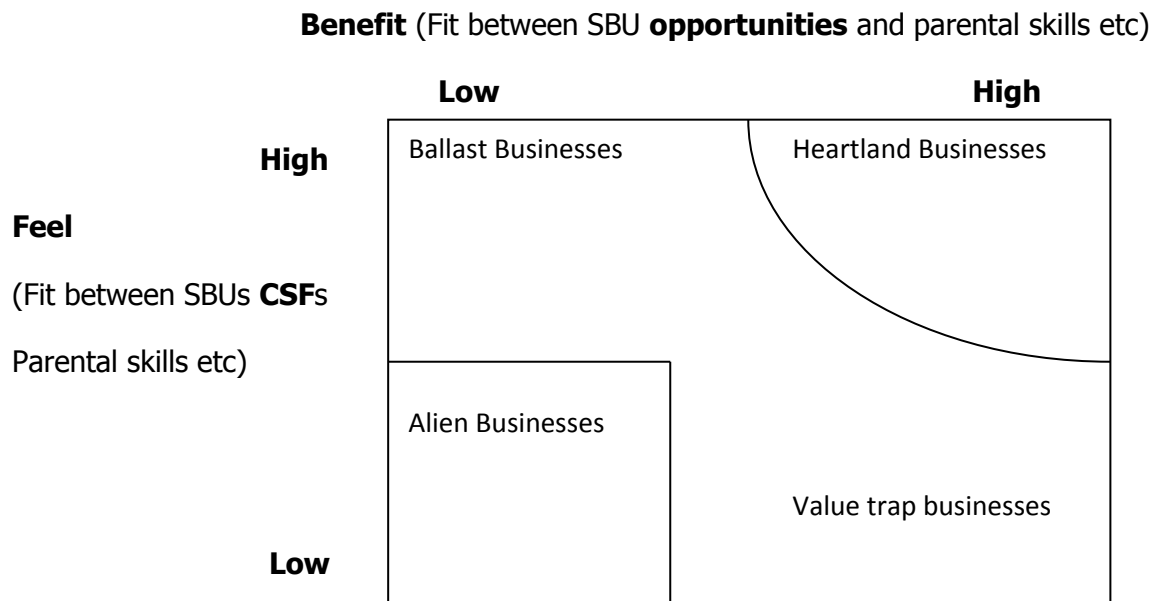
Implication for management of SBUs

This analysis reverses the usual approach to portfolio management. It does not analyse the value of the SBUs to the organisation, but what the organisation can add to the SBUs. This implies that the cost burden of the parent should commensurate with the value it is adding to an SBU. It also implies that that corporate parent should only possess SBUs that it can effectively parent.

Application of the same principles has seen some changes in the way businesses are being operated. The trend in business recent years has been decentralisation of decision making and a move towards facilitation by the parent rather than active intervention.

This has also been seen in the public sector with a trend towards privatisation and deregulation.

Ashridge Portfolio Display



SOLUTION FIVE

- a) Balanced scorecards combine both qualitative and quantitative measures, acknowledge the expectations of different stakeholders and relate an assessment of performance to choice of strategy. The balanced scorecard aims to highlight the financial and non-financial elements of corporate performance, through measuring four perspective of performance: financial, customer satisfaction, internal efficiency and innovation.

Financial perspective – addresses the question, “How can the organisation succeed financially and create value for its shareholders? It covers measures such as growth, profitability and shareholder value, with measures set through talking directly to the shareholders

Customer perspective – considers how organisation must appear to its customers in order to achieve its vision. It asks the question, ‘what new and existing customers expect of the organisation?’ Aspects which could be measured in terms of quality, speed, reliability and value for money of the organisation’s products.

Internal business perspective - considers what business processes an organisation needs to excel at in order to achieve financial and customer objectives. For example, it could be measured in relation to the efficiency of the product development process.

Innovation and learning perspective – considers how an organisation can continue to create value and maintain its competitive position through improvement and change. It could be measured, for example, in relation to the acquisition of new skills, or the development of new products.

Currently Gazebo is using the financial performance measurements which are historical and not forward looking. There is therefore need to incorporate the other three measures of performance that are qualitative. To measure the performance of the organisation in relation to its ability to address the customer needs, the information can be collected by gathering what customers say about the product and service offered. This can be done formally through questionnaires given to regular customers or informally, from casual talks with customers. Performance of the systems and processes can be gathered from the time it takes to serve one vehicle at the fuel pump. Innovation can be measured through the rate Gazebo embraces technology in its mini supermarkets and fuel pumps.

b) Critical success Factors

Once a strategy has been chosen, the next logical step in the formulation of strategy is to **validate** the choice of the chosen strategy by determining whether the organization has the ***capacity to prosecute the preferred choice***.

The capability means the organization's demonstrated or potential ability to accomplish, against competition and circumstance, whatever it sets out to do. One of the ways of establishing an organization's capability is to analyse a firm's distinctive competence. A firm's distinctive competence refers to a unique or outstanding strength a company possesses that enables it to deploy resources in a way which enables it to outperform competitors.

As a technique, the identification of critical success factors allows a firm to map out particular competences needed to sustain a specific strategy and outperform competitors. Critical success factors can be in any functional area (activity) of a firm.

The following are some of the areas in which a firm might create critical success factors:

- Product quality
- Innovation
- Offering the customer superior service
- Network of dealers and/customer

Johnson and Scholes (1997:419)⁵ have offered the following steps in developing critical success factors:

- Identify critical success factors for any specific strategy
- Identify the nature and scope of linkage between the identified critical success factors and other support activities
- Ensure that the list of success factors gives you a competitive advantage
- Identify performance standards which need to be achieved to outperform competition
- Assess the extent to which competitors can imitate each underpinning competence; and
- Decide on the impact of potential competitive moves and how these might need to be counteracted.

⁵ Johnson, G. and Scholes, K. (1997), Exploring Corporate Strategy, London: Prentice Hall