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SECOND SEMESTER EXAMINATIONS

**FOR THE MASTER OF BUSINESS
ADMINISTRATION**

COURSE CODE: MBA 871

COURSE TITLE: STRATEGIC MANAGEMENT

DATE: 25TH JUNE, 2012

TIME: 9.00A.M- 12 NOON

INSTRUCTIONS TO THE CANDIDATES

- SEE INSIDE

SECTION A

CASE: THE SECOND TIME ROUND

The second time round, the stakes are twice as high, particularly in the unforgiving world of computing. Bosses who take the helm again at firms they founded can either polish a gilded reputation, as Steve Jobs did after taking up the reins again at Apple, or they can tarnish one, the likely fate of Jerry Yang of Yahoo!, who will probably see the firm sold to Microsoft less than a year after taking over.

So why, after three years of relative distance as chairman of the board, did Michael Dell take charge again early last year at Dell, the company he had founded in his dorm room at the University of Texas at the age of 19? "When you start a company, it's a very personal thing," answers Dell, who is now 43. "I will care about what happens to the company even after I'm dead. I just can't let it go."

Mr. Dell's tenacity seems to be paying off. His firm, which used to be the world's biggest maker of personal computers, but had lost its crown to Hewlett-Packard, is beginning to regain market share. In the first quarter, it made 15.7% of PCs sold globally, compared with 14.8% a year ago, according to IDC, a market research firm. But there is still much to do if he is to achieve his goal of turning his company, commercially speaking, from a Texan unilateralist into a global multilateralist.

Ever since Mr. Dell started selling computers, he has focused on a different sort of innovation from the rest of the industry. In contrast to Apple, for instance, Dell has never worried about designing sexy devices or building a global network of fancy shops. Instead, the firm tried to make a commodity of customization. It allowed clients to choose the features they wanted, but kept costs down by selling only online, using generic parts and maintaining an impossibly lean supply chain. This model went down well with corporate customers, particularly in America, where Dell remains number one.

Turning customization into a commodity served Dell exceptionally well, and not just in the PC market: it successfully used the same approach with server computers, printers and storage devices. Yet just when the firm seemed unstoppable, its world began to change. Growth migrated from corporate markets to consumers and from rich countries to emerging markets, where people are warier of shopping online. What is more, as PCs became more powerful, buyers could no longer be persuaded to add extra processing power or a bigger hard drive when they bought them—one of the firm's specialties. Profits began to erode. Add exploding batteries, deteriorating

customer service and accounting problems to the mix, and it is easy to see why Mr. Dell felt he needed to come back.

One of Mr. Dell's first decisions was a push into what internet types call "social media". He set up a corporate blog and a website called IdeaStorm that lets customers make suggestions on how Dell can improve its products. This has earned Mr. Dell a reputation in the blogosphere for "getting it". Yet he sees such forums as a bigger and more efficient version of earlier online venues, such as the "bulletin board" he ran when he was 15. "I'm not as prone to hyperbole on these things because we've seen a lot of them," he says. "Having conversations with customers is fundamentally not a new idea."

Shopping and lusting.

A much more momentous move was the decision to start selling in shops again. This is a cultural revolution for Dell. It no longer wants to sell dull black boxes, but must aim for products that build "brand lust", as Mr. Dell calls it. So Dell will have to foster a whole new mindset among its engineers and designers. It will need to set up a bulk supply chain alongside the customized one. And it will have to delve into hitherto unknown realms, such as managing relationships with retailers.

Dell also wants to emulate its rival Hewlett-Packard, which is making a lot of money managing its customers' increasingly complex IT systems. To that end, Dell has bought several firms in recent months. "Services is a business where the demand is really greater than the supply," says Mr. Dell.

So has the PC monolith reformed itself enough to be able to plough through the looming recession? Many analysts worry that Dell will not be able to get its costs under control, despite plans to cut \$3 billion in expenses over three years and layoff more than 8,800 employees, nearly a tenth of the firm's workforce. But the firm has come a long way in a short period of time. It has, for instance, already developed some stylish computers that are selling well. And its products can now be found on the shelves of more than 10,000 stores, many of them in emerging economies.

Much will depend on how Dell does in places like China and India. To increase its appeal, the firm recently announced plans to join the PC industry's latest trend: mini-notebooks with small screens that cost only a few hundred dollars. And Mr. Dell is spending a lot of time visiting these new markets.

Otherwise, however, Mr. Dell seems to have settled easily into his old chair. "I was the CEO for the first 20 years of the company, and I'm the CEO again," he says. But he should not get too comfortable: it was continuity, after all, that got Dell into trouble in the first place.

SECTION A: Question 1

Answer ALL Questions in this Section: (Total: 40 marks)

- a) Conduct a situation analysis for Dell. **10 marks**
- b) Based on the situation analysis above, identify issues to be addressed and formulate strategic objectives to address these issues. **10 marks**
- c) During Michael Dell's first tenure at the helm of Dell, the company had created what appeared to be unassailable competitive advantage over its competitors. Describe what Dell managers did to destroy this enviable position and advise Michael Dell on how to reclaim his old position. **10 marks**
- d) In his new tenure, Dell seems to have changed course and is pursuing a totally different strategy. Describe the strategy and suggest reasons for its pursuit. **10 marks**

SECTION B (Total 60 marks)

2. (i) Many organizations have embraced strategic management with formulation and implementation of appropriate strategies aimed at achieving long-term competitive advantage and growth. However, a major challenge still remains in the successful implementation of strategies formulated. In light of this argument, explain any four major factors that affect strategic implementation in the public sector in Kenya. **12 marks**
- ii) Explain any four methods that may be used to control strategy outcome during strategic implementation. **8 marks**
3. (i) A strategy is a company's game plan. It reflects a company's awareness of how, when, and where it should compete; against whom; and for what purposes. Decisions of strategic nature are very important and are made by top management only. Why? **10 marks**
- (ii) Why do managers trade off long term objectives for short term benefits even though longevity assures businesses sustainable competitive advantage? **10 marks**

4. Corporate performance is an outcome of a given strategy which results from the interaction of the internal characteristic and external characteristic. Porter models the external characteristic in the form of forces at play within a certain industry.
- (i) Explain Porter's five forces. **10 marks**
 - (ii) Are these forces sufficient in explaining industry competition in a country like Kenya? Explain. **10 marks**
5. The biggest challenge to management in the modern business environment is building organizational competitiveness and sustainable growth. In achieving this goal managers have at their disposal variety of strategic options; both general and specific. However, the choice of strategy is dependent on the nature, size and stage of the business. In light of this contention;
- i. Describe Porter's three fundamental strategies that firms can generally use to achieve sustainable competitive advantage. **12 marks**
 - ii. Outline any four grand strategies that a firm in a mature market experiencing uneconomic business and declining profit margins can adopt to survive. **8 marks**
6. Ideally, managers should arrive at strategic choice depending primarily on formal evaluation criteria but more often than not, other informal factors come into play when the decision is finally made. Discuss the formal and informal criteria for strategic choice while highlighting their merits and demerits. **10 marks**