NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS MANAGEMENT

STRATEGIC MANAGEMENT II – CBU 4207

FINAL EXAMINATION - JUNE 2010

TIME ALLOWED: 3 HOURS 15 MINUTES

INSTRUCTIONS TO CANDIDATES

Answer question **one** and any other **three** questions from Section B

INFORMATION TO CANDIDATES

(i) Question **one** carries **40** marks.
(ii) All questions in Section B carry **20**marks each.
(iii) Credit will be given for the use of appropriate examples.
(iv) This paper contains **seven** questions.

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SECTION A

CASE STUDY

NIKE INCORPORATED

Fortune magazine surprised many min 1994 by naming Nike the most admired firm in the wholesaling sector. The authors of the article noted that, by 1994, Nike has outsourced virtually all its manufacturing. Management had turned a small investment into a successful marketer of running shoes and apparel. In fact, only a small portion of its most advanced, experimental products were made by a company – owned facility. Although this approach enabled Nike to be very cost effective, it also led to many problems relating to control of operations within the company, not the least of which involved assuring the public that the suppliers most of which were located in developing countries were not exploiting their workers even companies as advanced and admired as Levi's and Walmat had been embarrassed by revelations that a supplier had been employing women and children in sweat shop conditions.

From its earliest years, Nike Inc has primarily been a designer and marketer of athletic footwear and later apparel. It began in 1964 as Blue Ribbon Sport (BRS) importing Tiger brand running shoes from Japan. The founders, Phil Knight, a CPA and business professor and Bill Bowerman, Knights's high school track coach, invested $ 500 each and initially worked for the company on a part-time basis. Their first modification development of a midsole piece to cushion distance runners was a direct response to a customer's problem. Onitsuka , manufacturer of Tiger, agreed to incorporate the BRS modification into its manufacturing process for its major customer. In 1972, Onitsuka tried to buy 51% of BRS to benefit more directly from its $ 2 million in sales. When Knight and Bowerman refused to sell, their supplier refused to do any further business with them. Nike was faced with the need to develop its own line of shoes and its own means of production.

Phil Knight decided to continue with a system to the importing relationship of his company had had with Onitsuka. The main difference was that the shoes would now be designed by Nike and produced by factories not owned by the company but under contract to meet Nike's exacting standards, an arrangement known as "outsourcing". This arrangement gave the company two major advantages. First it did not have to invest in building or buying production facilities of its own, virtually eliminating the need for long-term debt. Second, it could easily take advantage of differences in production costs and changes in comparative costs. For example as Japanes labour became more expensive. Nike shifted to factories in Hong Kong, The People's Republic of China, Singapor, Taiwan, Indonesia and Thailand.

The combination of low interest payment on debt and the low-wage foreign labour gave Nike a tremendous cost advantage over many of its competitors, allowing the company to provide high-quality athletic shoes at relatively reasonable prices. Maintaining quality was a potential problem, however. Since Nike did not own the factories where its shoes were made, it had to rely on its contracts and buying power to enforce its standards. This required a careful selection process for new sources. Nike's solution was to send one or more representatives from the company to work closely with the potential supplier. The Nike experts helped with all aspects of the business startup, from installing equipment and training to developing local sources for materials whenever possible.

Once the new source had been established, Nike continued a close relationship. The company appointed a resident manager, a Nike employee, typically from the United States. Part of the resident manager's job was to monitor quality and help solve any operating problems that could affect Nike's products or delay delivery. The other part of this function, according to John Woodman, Nike's general manager in Indonesia, was to make sure that the contract factories met law abiding corporate citizen". Nike also established policies and procedures designed to overcome potential problems. One important component was the company's futures programme, which encouraged retailers to order Nike products 5 months in advance. The retailers received guaranteed delivery dates. Nike, in return, receives over half of its orders with enough lead time to schedule production levels and delivery. The advance orders also enabled Nike to source components for some of its newest and most highly technical and patented, shoes in the United States and ship them to the Asian factories for assembly.

In addition Nike worked closely with its shippers and with U.S. Customs. Virginia Hopkirk, Transportation and Customs Manager, felt that "Nike has retained leadership in the way it considers customer service to be important and aligned distribution and delivery along those lines. Hopekirk was also in charge of smoothing the products's trip through U.S. Customs. Combining them into one function, so that transportation and Customs work in concert rather than in two distant areas, let us see problems coming and do something about them before they have an impact on the company........ This has a lot to do with the advance work we do with carriers and Customs, visiting them often, making ourselves known and passing information along to the various ports". The complexities of Nike's operations are still increasing. The company has greatly expanded its marketing in Europe and Asia. Nike's method of international operations has its critics, however. One charge levied against the company by the Asian American Free Labour Institute, and affiliate of the AFL-CIO, is that factories such as those in Indonesia exploit the local labour force, who receives very low wages. Employees were willing to work for as little as $1.06 U.S., the legal minimum was in Indonesia for a 7-hour day. John Woodman, Indonesian General Manager, responded:'Yes, they are low wages. But we've come in here and given jobs to thousands of people who wouldn't be working otherwise". One worker at a Korean-owned Indonesian factory said: "I'm happy working here................. I can make friends and I can make money.

QUESTION 1

a) What specific control mechanism is Nike giving up by outsourcing? What effects could this have on costs and product quality? **[15 Marks]**

b) Describe the control procedures and other steps Nike takes to ensure product quality and customer service despite the outsourcing. **[15 Marks]**

c) How would you classify Nike's control systems? **[10 Marks]**

SECTION B

QUESTION 2

In a luncheon conversation with a friend, you happen to mention that your organisation is committed to maximazing the entrepreneurial spirit of its staff while minimising the bureaucracy of its systems. Your friend, a recent college graduate, is not familiar with the concept and asks: what is it and why should I be familiar with it? How will you respond to the question?

[20 Marks]

QUESTION 3

What positive results might be expected when levels of management are reduced and the chain of command shortened in an organisation?

[20 Marks]

QUESTION 4

Two business women, former college room-mate, are discussing their jobs and careers over lunch. You overhear one saying to the other, 'I work for a large corporation, while you own a small retail business. In my company there is strong corporate culture and everyone feels its influence. In fact, we are always expected to act in ways that support the culture and serve as role models for others to also do so. Because of the small size of your firm, corporate culture is not such an important thing to worry about'. Do you agree or disagree with this statement? Why?

[20 Marks]

QUESTION 5

Saul Ngulube is one of the shareholders in a large organisation. He is worried about staying informed about the ongoings in the company particularly the control systems used to execute strategy. Demonstrate to him the various types of control systems used to monitor and coordinate activities.

[20 Marks]

QUESTION 6

If a related company begins to buy unrelated businesses, in what way should it change either its structure or control mechanisms to manage acquisitions?

[20 Marks]

QUESTION 7

Discuss the importance of the relationships among differentiation, integration and strategic control systems in the implementation of strategy. **[20 Marks]**

END OF EXAMINATION