



# STRATHMORE UNIVERSITY

## Strathmore Business School

Master of Business Administration

### Make-up Continuous Assessment Test

### MBA 8107: Strategic Management

Date: Tuesday, 23<sup>rd</sup> July 2013

Time: 2 hours

**Instructions: Read the Case on ABC Construction Company and answer any 4 of the questions below.**

#### ABC Construction Company

You have just been appointed as Vice President of Strategy for ABC Construction Company. The company builds houses in the major cities in Kenya. The houses built by ABC range from affordable houses for low to mid-level income workers to very expensive houses situated in gated communities in some of the most exclusive neighborhoods in Kenya's major cities.

ABC construction was founded by Herbert Kamau in the 1950s. The founder of the company passed away about 15 years ago and his son Edward has ran the company as the Chief Executive Officer (CEO) since the founder's passing. ABC Construction is known by its customers for building quality houses, especially the higher priced homes. Customers like the well-designed gardens that can be found with all the homes they build. ABC has won the building industry's highest quality award the last five years. Another feature of their homes that appeals to customers is the open concept arrangement that allows natural light to brighten the interior of the homes and which make the homes appear larger than they really are.

ABC's chief designer, Tony Abero dictates the arrangement of exterior and interior walls and partitions inside the house to gain the maximum benefits from the passage of light through the house. The eccentric Mr. Abero has been with the company for about 25 years and maintains total control over matters concerning the design of houses built by ABC. His design expertise, his long term service and the close relationship he enjoyed with the founder of the company make him untouchable. Many employees look up to him for guidance and final decisions on design and quality issues.

In spite of the quality built into the homes, the open concept arrangements and the unique gardens, the houses they build at the low end of the price scale have very low margins and generally do not contribute much to the company's profits. There have been many debates within the management ranks of the company regarding whether they should discontinue building the smaller homes with the low margins. Mr. Kobo, the Chief Financial Officer of ABC has often led the discussion to discontinue building the low cost houses since they detract from the

company's bottom line (profits). Mr. Kobo's main concern is that the company will cease to be profitable in a few years if they continue to build the homes with low margins whereas the company could be making extremely healthy profits by concentrating on building only the more expensive homes.

The Kamau family led by the company's CEO views building low cost housing as a "sacred trust" that must be honoured. The CEO has stated on several occasions that, as it was the wish of his father who founded the company, the company will always build low cost housing for those who cannot afford to buy more expensive homes. In addition, he often brags about the various awards that the company has received for their humanitarian activities and contributions to society.

Among the many challenges facing ABC has been the increasing competition from the many companies building houses in Kenya now. Companies such as Household Finance Corporation (HFC) now hold housing fairs where many builders are able to show their homes and sites to potential buyers. Some of these builders specialize in very expensive homes and others only build homes targeted toward the low to middle income segment of the market. Some of the new builders have aggressive marketing plans with enticing incentives such as subsidized (lowered) interest rates and special upgrades at no cost to attract buyers.

Companies such as Regimanuel Gray, Emef Homes and Royal Crest compete with ABC construction for market share in the luxury homes segment. These companies build in prime areas which are becoming harder to find and price their homes relative to the American dollar. On the other hand there is a glut of builders competing in the low priced home market and they build anywhere they can find affordable land.

Another challenge faced by the company and the industry in general is the relatively high interest rate environment in which they operate. The high interest rate of approximately 25 per cent per annum makes it expensive for builders to borrow to build and also make it difficult for prospective buyers who want to buy homes with mortgage financing (housing loans) to afford the required monthly payments. The Kenyan Real Estate Developers Association (KREDA), which represents builders in Kenya, has been lobbying the government to lower interest rates to make their homes more affordable in order to attract more buyers for the industry. The CEO of ABC has spent a considerable amount of time promoting and leading the effort from the industry to lower interest rates.

Please answer four (4) of the questions below: Each Question is 5 Marks and should give you 20 Marks for the CAT

1. **Explain how ABC would use The Walt Disney circle to bring about a successful strategic change. (5 Marks)?**
2. **What kind of Competitive Strategy is ABC pursuing, explain your choice (5 Marks)?**

3. **If you wanted to push for change in terms of continuing to build or stop building the low cost houses and you conducted a stakeholder analysis, identify and explain why and which stakeholders will be of most concern to you in order to improve your chances of success in implementing your Strategic Intent (5 Marks)?**
4. **Based on your understanding of the issues and facts of the case as presented, please draw up the strategy stool and argue whether the strategy of ABC is standing firm (5 Marks).**
5. **Does ABC have a Business? Where is the money for ABC? What suggestions would you make to Edward, the CEO to improve ABC's chances of future success (5 Marks)?**
6. **Explain ABC organizational capability in terms of Values, Processes and Resources.**