Dear Students,

This book on CA Intermediate Strategic Management is made as per the new syllabus effective from May24. This book includes Question and Answers as per the ICAI format. The structure of this book is designed particularly as per the needs of the students and ensures to cover all the possible varieties of questions that can be asked.

This book includes:

- Questions given by ICAI in Module (scenario based + descriptive)
- Case Studies
- Multiple Choice Questions
- ICAI Past Exam Questions
- ICAI RTP Questions

This book is essential for Answer Writing practice, and use of technical words while writing answers is of immense importance in order to score well. This book contains all such key words which should form part of your answer. Also, good presentation of paper is equally important along with the content.

We sincerely hope this book helps the students in their preparation journey.

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*Past year Question with suggested answers given at the end for practice

Ch1 Introduction to Strategic Management

A) Scenario Based Questions

1.Mr. Raj has been hired as a CEO by XYZ Ltd a FMCG company that has diversified into affordable cosmetics. The company intends to launch Feelgood brand of cosmetics. XYZ wishes to enrich the lives of people with its products that are good for skin and are produced in ecologically beneficial manner using herbal ingredients. Draft vision and mission statement that may be formulated by Raj.

Answer.

Feelgood brand of cosmetics may have following vision and mission:

Vision: Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. Mr. Raj should aim to position "Feelgood cosmetics" as India's beauty care company. It may have vision to be India' largest beauty care company that improves looks, give extraordinary feeling and bring happiness to people.

Mission: Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. It is designed to help potential shareholders and investors understand the purpose of the company: Mr. Raj may identify mission in the following lines:

To be in the business of cosmetics to enhance the lives of people, give them confidence to lead.

To protect skin from harmful elements in environment and sun rays.

To produce herbal cosmetics using natural ingredients.

2.Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former. Discuss the strategic approach of the two companies. Which is superior?

Answer.

Yummy foods is proactive in its approach. On the other hand, Tasty Food is reactive. A proactive strategy is a planned strategy whereas reactive strategy is an adaptive reaction to changing circumstances. A company's strategy is typically a blend of proactive actions on the part of managers to improve the company's market position and financial performance and reactions to unanticipated developments and fresh market conditions.If organisational resources permit, it is better to be proactive rather than reactive. Being proactive in aspects such as introducing new products will give you an advantage in the mind of customers.

At the same time, crafting a strategy involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge-a reactive/adaptive strategy. This aspect can be accomplished by Yummy Foods.

3.Ramesh Sharma has fifteen stores selling consumer durables in Delhi Region.Four of these stores were opened in last three years. He believes in managing strategically and enjoyed significant sales of refrigerator, televisions, washing machines, air conditioners and like till four years back. With shift to the purchases to online stores, the sales of his stores came down to about seventy per cent in last four years. Analyse the position of Ramesh Sharma in light of limitations of strategic management.

Answer.

Ramesh Sharma is facing declining sales on account of large-scale shift of customers to online stores. While he is using the tools of strategic management, they cannot counter all hindrances and always achieve success.

There are limitations attached to strategic management as follows:

- Environment under which strategies are made is highly complex and turbulent. Entry of online stores, a new kind of competitor brought a different dimension to selling consumer durables. Online stores with their size power could control the market and offer stiff competition to traditional stores.
- Another limitation of strategic management is that it is difficult to predict how things will shape-up in future. Ramesh Sharma, although managing strategically failed to see how online stores will impact the sales.
- Although, strategic management is a time-consuming process, he should continue to manage strategically. The challenging times require more efforts on his part.

- Strategic management is costly. Ramesh Sharma may consider engaging experts to find out preferences of the customers and attune his strategies to better serve them in a customised manner. Such customised offerings may be difficult to match by the online stores.
- The stores owned by Ramesh Sharma are much smaller than online stores. It is very difficult for him to visualise how online stores will be moving strategically.

4.Dharam Singh, the procurement department head of Cyclix, a mountain biking equipment company, was recently promoted to look after sales department along with procurement department. His seniors at the corporate level have always liked his way of leadership and are assured that he would ensure the implementation of policies and strategies to the best of his capacity but have never involved him in decision making for the company. Do you think this is the right approach? Validate your answer with logical reasoning around management levels and decision making.

Answer.

Functional managers provide most of the information that makes it possible for business and corporate level managers to formulate realistic and attainable strategies. This is so because functional managers like Dharam Singh are closer to the customers/suppliers/ operations than the typical general manager is. A functional manager may generate important ideas that subsequently may become major strategies for the company. Thus, it is important for general managers to listen closely to the ideas of their functional managers and invoice them in decision making. An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business level plans, and if they are involved in formulation, the clarity of thoughts while implementation can benefit too. Thus, the approach of Cylcix Corporate management is not right. They should involve Dharam Singh, as well as other functional managers too in strategic management.

5. ABC Limited is in a wide range of businesses which include apparels, lifestyle products, furniture, real estate and electrical products. The company is looking to hire a suitable Chief Executive Officer. Consider yourself as the HR consultant for ABC limited. You have been assigned the task to enlist the activities involved with the role of the Chief Executive Officer. Name the strategic level that this role belongs to and enlist the activities associated with it.

Answer.

The role of Chief Executive Officer pertains to corporate level. The corporate level of management consists of the Chief Executive Officer (CEO) and other top-level executives. These individuals occupy the apex of decision making within the organisation.

The role of Chief Executive Officer (Top Management/Corporate Level Managers) is to:

1. oversee the development of strategies for the whole organisation;
2. defining the mission and goals of the organisation;
3. determining what businesses it should be in;
4. allocating resources among the different businesses;
5. formulating, and implementing strategies that span individual businesses;
6. providing leadership for the organisation;
7. ensuring that the corporate and business level strategies which company pursues are consistent with maximising shareholders wealth; and
8. managing the divestment and acquisition process.

6. Mr. Raj has been hired as a CEO by XYZ ltd a FMCG company that has diversified into affordabl cosmetics. The company intends to launch Feelgood brand of cosmetics. XYZ wishes to enrich the lives of people with its products that are good for skin and are produced in ecologically beneficial manner using herbal ingredients. Draft vision and mission statement that may be formulated by Raj.

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- To be in the business of cosmetics to enhance the lives of people, give them confidence to lead.
- To protect skin from harmful elements in environment and sun rays.
- To produce herbal cosmetics using natural ingredients.

B) Descriptive Based Questions

7. What is Strategic Management? What benefits accrue by following a strategic approach to managing?

Answer.

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments were deemed appropriate.

The overall objective of strategic management is two-fold:

1. To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.
2. To guide the company successfully through all changes in the environment.

The following are the benefits of strategic approach to managing:

- Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.
- Strategic management provides frameworks for all the major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

8. Are there any limitations attached to strategic management in organisations? Discuss.

Answer.

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines:

- Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.

- Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.

- Strategic management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources.

- In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies.

9.Explain the difference between three levels of strategy formulation.

Answer.

A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional.

The corporate level of management consists of the chief executive officer and other top-level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organisation, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level. The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a self-contained division with its own functions - For example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organisational activity, whereas general managers oversee the operation of a whole company or division.

10. "Strategy is partly proactive and partly reactive." Discuss.

Answer.

Strategy is partly proactive and partly reactive. In proactive strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

There can be significant deviations between what was visualized and what actually happens. Strategies need to be attuned or modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

11.What is a mission statement? State the points that may be considered while writing a mission statement of a company.

Answer.

Mission statement is an answer to the question "Who we are and what we do" and hence has to focus on the organisation's present capabilities, focus activities and business makeup. An organisation's mission states what customers it serves, what need it satisfies, and what type of product it offers. It is an expression of the growth ambition of the organisation. A company's mission statement is typically focused on its present business scope- "who we are and what we do"; mission statements broadly describe an organisations present capabilities, customer focus activities and business makeup.

The following points must be considered while writing a mission statement of a company.

a) To establish the special identity of the business - one that typically distinct it from other similarly positioned companies.

b) Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.

c) Good mission statements should be unique to the organisation for which they are developed.

d) The mission of a company should not be to make profit. Surpluses may be required for survival and growth, but cannot be mission of a company.

12. Briefly discuss the difference between vision and mission.

Answer.

A Mission statement tells you the fundamental purpose of the organisation. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance.

On the other hand, a vision statement outlines what the organisation wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria. A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the major differences between vision and mission:

a) The vision states the future direction while the mission states the ongoing activities of the organisation.

b) The vision statement can galvanise the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A mission statement provides a path to realise the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organisation.

c) A vision statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a mission statement is more specific in terms of both the future state and the time frame. Mission describes what will be achieved if the organisation is successful.

C) ICAI PAST EXAM QUESTIONS

13. Why an organisation should have a mission? What considerations are to be kept in mind while writing a good mission statement of a company? (Nov 2019)

Answer.

Organisation should have a mission on account of the following reasons –

- To ensure unanimity of purpose within the organisation .
- To develop a basis, or standard, for allocating organisational resources.
- To provide a basis for motivating the use of the organisation's resources.
- To establish a general tone or organisational climate.
- To serve as a focal point for those who can identify with the organisation's purpose and direction.
- To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.
- To specify organisational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

The following points must be considered while writing a good mission statement of a company –

i) To establish the special identity of the business – one that typically distinct it from other similarly positioned companies.

ii) Good mission statements should be unique to the organisation for which they are developed.

iii) Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.

14.What is strategic vision? Describe the essentials of strategic vision. (Nov 2020)

Answer.

Strategic Vision –

A strategic vision is a roadmap of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. It helps the company to answer the question "where we are to go" and provides a convincing rationale for why this makes good business sense for the company.

A strategic vision delineates organisation's aspirations for the business, providing a panoramic view of the position where the organisation is going. A strategic vision points an organisation in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organisational identity.

Essentials of a strategic vision –

- The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- A well-articulated strategic vision creates enthusiasm among the members of the organisation.
- The best-worded vision statement clearly illuminates the direction in which organisation is headed.

15. ABC Limited is in a wide range of businesses which include apparels, lifestyle products, furniture, real estate and electrical products. The company is looking to hire a suitable Chief Executive Officer. Consider yourself as the HR consultant for ABC limited. You have been assigned the task to enlist the activities

involved with the role of the Chief Executive Officer. Name the strategic level that this role belongs to and enlist the activities associated with it. (Jan 2021)

Answer.

The role of Chief Executive Officer pertains to Corporate level. The corporate level of management consists of the Chief Executive Officer (CEO) and other top- level executives. These individuals occupy the apex of decision making within the organisation. The role of Chief Executive Officer is to –

a) oversee the development of strategies for the whole organisation

b) defining the mission and goals of the organization;

c) determining what businesses, it should be in;

d) allocating resources among the different businesses;

e) formulating, and implementing strategies that span individual businesses;

f) providing leadership for the organization;

g) ensuring that the corporate & business level strategies which company pursues are consistent with maximising shareholders wealth; and

h) managing the divestment and acquisition process.

16. Strategic Management is not a panacea for all the corporate ills, it has its own pitfalls which can't counter all hindrances and always achieve success'. Do you agree with this statement? Discuss. (May 2019)

Answer.

It is true that the strategic management is not a panacea for all corporate ills. This is on account of complex multiple forces acting on business organization and limiting its success.

These limitations are on account of following factors –

- Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.
- Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business
- Strategic management is a costly process. Strategic management adds a lot of expenses to an organisation – particularly to small and medium organisations. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement.
- Competition is unpredictable. In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

D) ICAI RTP QUESTIONS

17. Strategic management helps an organisation to work through changes in environment to gain competitive advantage. In light of statement discuss its benefits. (RTP Nov 2019)

Answer.

Strategic management involves developing the company's vision, environmental scanning, strategy formulation, implementation, evaluation and control. It emphasises the monitoring and evaluation of external opportunities and threats in the light of a company's strengths and weaknesses and designing strategies for the survival and growth. It helps in creation of competitive advantage to outperform the competitors and also guide the company successfully through all changes in the environment.

The major benefits of strategic management are:

- Strategic management gives a direction to the company to move ahead. It defines the goals and mission.
- It helps organisations to be proactive instead of reactive in shaping its future.
- It provides framework for all major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- It helps organisations to identify the available opportunities and identify ways and means to achieve them and serves as a corporate defence mechanism against mistakes and pitfalls.
- It helps to enhance the longevity of the business.
- It helps the organisation to develop certain core competencies and competitive advantages that would facilitate survival and growth.

18.Define strategic management. Also discuss the limitations of strategic management. (RTP May 2021)

Answer.

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate. The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

- Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.
- Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- Strategic management is a costly process. Strategic management adds a lot of expenses to an organisation. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.
- Competition is unpredictable. In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

E) MULTIPLE CHOICE QUESTIONS

1. Strategy is a game plan used for which of the following?

(a) To take market position

(b) To attract and satisfy customers

(c) To respond to dynamic and hostile environment

(d) All of the above

4. Which of the following is correct?

(a) Strategy is always pragmatic and not flexible

(b) Strategy is not always perfect, flawless and optimal

(c) Strategy is always perfect, flawless and optimal

(d) Strategy is always flexible but not pragmatic

3. Strategy is-

(a) Proactive in action

(b) Reactive in action

(c) A blend of proactive and reactive actions

(d) None of the above

4. Reactive strategy can also be termed as -

(a) Planned strategy

(b) Adaptive strategy

(c) Sound strategy

(d) Dynamic strategy

5. Formulation of strategies and their implementation in a strategic management process is undertaken by-

(a) Top level executives

(b) Middle level executives

(c) Lower level executives

(d) All of the above

6. Which of the following are responsible for formulating and developing realistic and attainable strategies?

(a) Corporate level and business level managers

(b) Corporate Level and Functional Level managers
(c) Functional managers and business level managers
(d) Corporate level managers, business level managers and functional level managers

7. Which of the following managers' role is to translate the general statements/ strategies into concrete strategies of their individual businesses-
(a) Supervisor
(b) Functional Manager
(c) CEO of the company
(d) All of the above

8. Which statement should be created first and foremost?
(a) Strategy
(b) Vision
(c) Objectives
(d) Mission

9. Strategic management enables an organisation to instead of companies just responding to threats in their business environment.
(a) be proactive
(b) determine when the threat will subside
(c) avoid the threats
(d) defeat their competitors

10. Read the following three statements:
(i) Strategies have short-range implications.
(ii) Strategies are action oriented.
(iii) Strategies are rigidly defined.
From the combinations given below select an alternative that represents statements that are true:
(a) (i) and (ii)
(b) (i) and (ii)
(c) (ii) and (iii)
(d) (i), (ii) and (iii)

11. What involves formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives?
(a) Strategy formulation
(b) Strategy evaluation
(c) Strategy implementation
(d) Strategic management

12.Strategic management allows an organisation to be more
(a) Authoritative
(b) Participative
(c) Commanding
(d) Proactive

1	(d)	**2**	(b)	**3**	(c)	**4**	(b)	**5**	(d)	**6**	(d)
7	(b)	**8**	(b)	**9**	(a)	**10**	(a)	**11**	(d)	**12**	(d)

Ch2 Strategic Analysis: External Environment

A) Scenario Based Questions

1.Suresh Singhania is the owner of an agri-based private company in Sangrur, Punjab. His unit is producing puree, ketchups and sauces. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape. Explain the steps to be followed by Suresh Singhania to understand competitive landscape.

Answer.

Steps to understand the competitive landscape:

(i) Identify the competitor: The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.

(ii) Understand the competitors: Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

(iii) Determine the strengths of the competitors: What is the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business?

(iv) Determine the weaknesses of the competitors: Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

(v) Put all of the information together: At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm.

2. Eco-carry bags Ltd., a recyclable plastic bags manufacturing, and trading company has seen a potential in the ever-growing awareness around hazards of plastics and the positive outlook of the society towards recycling and reusing plastics. A major concern for Eco-carry bags Ltd. are paper bags and old cloth bags. Even though they are costlier than recyclable plastic bags, irrespective, they are being welcomed positively by the consumers. Identify and explain that competition from paper bags and old cloth bags fall under which category of Porter's Five Forces Model for Competitive Analysis?

Answer.

Eco-carry bags Ltd. faces competition from paper bags and old cloth bags and falls under Threat of Substitutes force categories in Porter's Five Forces Model for Competitive Analysis. Paper and cloth bags are substitutes of recyclable plastic bags as they perform the same function as plastic bags. Substitute products are a latent source of competition in an industry. In many cases, they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.

3. Baby Turtle is a children's clothing brand that has been created a new age demand for washable diapers. The major benefit for the brand has been that not many companies have shown interest in the product, thinking it is not viable, however, customers, majorly working mothers are loving their product. The core material needed for production is also used in many other water proofing products in various industries. Baby Turtle sources this material from a renowned supplier at comparatively low prices. Which of the five forces of competitive pressure would Baby Turtle experience due to above setup and what are major factors that create such pressure for a product? Do you think Baby Shark has an advantage in some way to fight off this pressure?

Answer.

Baby Turtle would experience, Bargaining Power of Suppliers, as a competitive pressure for their washable diaper product. This is because the core material for production is sourced from a single supplier, who is renowned and in a position to create pressure in terms of prices.

Further, other factors that lead to such pressure are:

1. Their products are crucial to the buyer and substitutes to the material required for production are not available.

2. Suppliers can manipulate switching cost as the brand is in inception stage and making margins are important. An advantage that Baby Turtle has is even though the material required has no substitutes, but it used to make many other products and thus there are many other suppliers who can provide that material. It might affect operations in short term but will help to fight off the pressure created by existing supplier.

4. Rahul Sharma is Managing Director of a company which is manufacturing trucks. He is worried about the entry of new businesses. What kind of barriers will help Rahul against such a threat?

Answer.

A firm's profitability tends to be higher when other firms are blocked from entering the industry. New entrants can reduce industry profitability because they add new production capacity leading to increase supply of the product even at a lower price and can substantially erode existing firm's market share position. Barriers to entry represent economic forces that slow down or impede entry by other firms. Common barriers to entry include:

i) Capital Requirements - When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry. Economies of Scale: Many industries are characterised by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows.

ii) Product Differentiation - Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.

iii) Switching Costs - To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products. When such switching costs are high, buyers are often reluctant to change.

iv) Brand Identity - The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer.

v) Access to Distribution Channels - The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals.

vi) Possibility of Aggressive Retaliation - Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

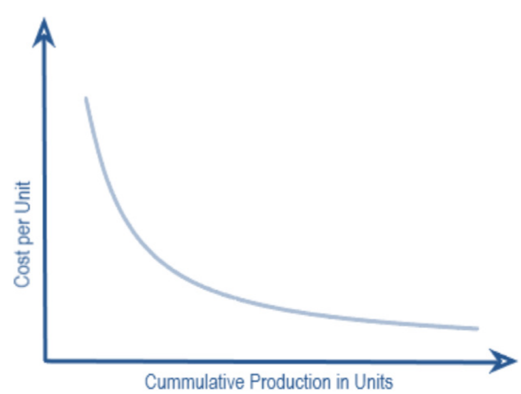
B) Descriptive Based Questions

5. Explain the concept of Experience Curve and highlight its relevance in strategic management.

Answer.

Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. It is represented diagrammatically as shown in the next page. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organisations, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition.



6. Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis.

Answer.

Product Life Cycle is an important concept in strategic choice and S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is also at a lower rate.

The second stage of PLC is the growth stage, in which the demand expands rapidly, prices fall, competition increases and market expands.

The third stage of PLC is the maturity stage, where in the competition gets tough and market gets stabilized. Profit comes down because of stiff competition.

The fourth stage is the declining stage of PLC, in which the sales and profits fall down sharply due to some new product replaces the existing product.

PLC can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

7. Explain Porter's five forces model as to how businesses can deal with the competition.

Answer.

To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
- Competitive pressures associated with the threat of new entrants into the market.
- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
- Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
- Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.

8. What are the five competitive forces in an industry as identified by Michael Porter?

Answer.

Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the over all market. These five forces are -

a) Threat of new entrants: New entrants are always a powerful source of com- petition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

b) Bargaining power of customers - This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.

c) Bargaining power of suppliers - Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

d) Rivalry among current players - The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being charged, advertising, and pressures on costs, product and so on.

e) Threats from substitutes - Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of com- petition. Substitute products offering a price advantage and/ or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/ profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength of these five competitive forces determines the scope to earn attractive profits. The strength of the forces may vary from industry to industry.

C) ICAI PAST EXAM QUESTIONS

9.Discuss in what conditions rivalry among competitors tends to be cut-throat and profitability of the industry goes down. (Nov 2019)

Answer.

The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus directly affect the profitability. The more intensive the rivalry, the less attractive is the industry.

Rivalry among competitors tends to be cutthroat and industry profitability low when

- An industry has no clear leader.
- Competitors in the industry are numerous.
- Competitors operate with high fixed costs.
- Competitors face high exit barriers.
- Competitors have little opportunity to differentiate their offerings.
- The industry faces slow or diminished growth.

10. What do you understand by 'Competitive Landscape'? What are steps to understand the competitive landscape? (May 2019)

Answer.

Competitive landscape is a business analysis which identifies competitors, either direct or indirect. Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the comprehension of their vision, mission, core values, niche market, strengths and weaknesses.

Steps to understand the competitive landscape are:

i) Identify the competitor - The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.

ii) Understand the competitors - Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

iii) Determine the strengths of the competitors - What are the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business?

iv) Determine the weaknesses of the competitors - Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

v) Put all of the information together - At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm.

11. Industry and competitive analysis begins with an overview of the industry's dominant economic features." Explain and also narrate the factors to be considered in profiling in industry's economic features. (Nov 2019)

Answer.

Industry is "a group of firms whose products have same and similar attributes such that they compete for the same buyers." Industries differ significantly in their basic character and structure. Industry and competitive analysis begins with an overview of the industry's dominant economic features. The factors to be considered while profiling an industry's economic features are fairly standard and are given as under:

- Size and nature of market.
- Scope of competitive rivalry.
- Market growth rate and position in the business life.
- Number of rivals and their relative market share.
- The number of buyers and their relative sizes.
- The types of distribution channels used to access consumers.
- The pace of technological change in both production process innovation and new product introductions.

Whether the products and services of rival firms are highly differentiated, weakly differentiated, or essentially identical?

- Whether organisation can realize economies of scale in purchasing, manufacturing, transportation, marketing, or advertising.
- Whether key industry participants are clustered in a location.
- Whether certain industry activities are characterized by strong learning and experience effects ("learning by doing") such that unit costs decline as cumulative output grows.
- Whether high rates of capacity utilization are crucial to achieve low-cost production efficiency.
- Capital requirements and the ease of entry and exit.
- Whether industry profitability is above or below par?

12. Why companies should go global? Mention any five reasons. (Nov 2020)

Answer.

There are several reasons why companies go global. These are discussed as follows -

- One reason could be the rapid shrinking of time and distance across the globe - thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes.
- It is being realized that the domestic markets are no longer adequate and rich. Companies globalise to take advantage of opportunities available elsewhere.
- A new product may gradually get acceptance and grow locally and then globally. This may initially be in form of exports and then later production facilities may begin in other countries.
- Organisations may go global to take advantage of cheaper raw material and labour costs.
- Companies often set up overseas plants to reduce high transportation costs.
- The motivation to go global in high-tech industries is slightly different. Companies in electronics and telecommunications must spend large sums on research and development for new products and thus may be compelled to seek ways to improve sales volume to support high overhead expenses.
- The companies may also go global to take advantage of local taxation laws.
- To form strategic alliances to ward off economic and technological threats and leverage their respective comparative and competitive advantages.

D) ICAI RTP QUESTIONS

13. ABC Ltd. manufactures and sells air purifier 'Fresh Breath'. The 'Fresh Breath' has seen sales growth of around 1% for the last two years, after strong growth in the previous five years. This is due to new products entering the market in competition with the 'Fresh Breath'. ABC Ltd. is therefore considering cutting its prices to be in line with its major rivals with a hope to maintain the market share. Market research indicates that this will now cause a significant increase in the level of sales, even though in previous years price cuts have had little effect on demand. ABC ltd. is also planning to launch a promotional campaign to highlight the benefits of the 'Fresh Breath' against its rival products. Identify and explain the stage of the product life cycle in which 'Fresh Breath' falls. (RTP May 2021)

Answer.

Product Life Cycle is a useful concept for guiding strategic choice. PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift).

The product 'Fresh Breath' of ABC Ltd. falls under Maturity stage of product life cycle. In this stage, the competition gets tough and market gets stablised. Profit comes down because of stiff competition. At this stage, ABC Ltd. have to work for maintaining stability by cutting the prices to be in line with its major rivals with a hope to maintain the market share and by launching a promotional campaign to highlight the benefits of the 'Fresh Breath' against its rival products.

14. Buyers can exert considerable pressure on business. Do you agree? Discuss. (RTP Nov 2019)

Answer

Buyers of an industry's products or services can exert considerable pressure on existing firms to secure lower prices or better services. This is evident in situations where buyers enjoy superior position than the seller of product. This leverage is particularly evident when:

a) Buyers have full knowledge of the sources of products and their substitutes.

b) They spend a lot of money on the industry's products, i.e., they are big buyers.

c) The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

15. Competitive pressures operate as a composite in five areas of the overall market. Elaborate. (RTP May 2021)

Answer

Competition makes organisations work harder, however, it is neither a coincidence nor bad luck. All organisations have competition and its benefit are enjoyed by the markets. The customers are able to get better products at lower costs. They get better value for their money because of competition. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market as follows -

a) Rivalry among current players - Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.

b) Threat of new entrants - Competitive pressures associated with the threat of new entrants into the market.

c) Threats from substitutes - Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.

d) Bargaining power of suppliers - Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.

e) Bargaining power of customers - Competitive pressures stemming from buyer bargaining power and seller-buyer collaboration.

E) MULTIPLE CHOICE QUESTIONS

1. KSFs stand for:
(a) Key strategic factors
(b) Key supervisory factors
(c) Key success factors
(d) Key sufficient factors

2. Competitive landscape requires the application of-
(a) Competitive advantage
(b) Competitive strategy
(c) Competitive acumen
(d) Competitive intelligence

3. The term PESTLE analysis is used to describe a framework for analysing:
(a) Macro Environment
(b) Micro Environment
(c) Both Macro and Micro Environment
(d) None of above

4.'Attractiveness of firms' while conducting industry analysis should be seen in-
(a) Relative terms
(b) Absolute terms
(c) Comparative terms
(d) All of the above

5. What is not one of Michael Porter's five competitive forces?
(a) New entrants
(b) Rivalry among existing firms
(c) Bargaining power of unions
(d) Bargaining power of suppliers

6.Which of the following constitute Demographic Environment?
(a) Nature of economy i.e. capitalism, socialism, Mixed
(b) Size, composition, distribution of population, sex ratio
(c) Foreign trade policy of Government
(d) Economic policy i.e. fiscal and monetary policy of Government

7. All are elements of Macro environment except:
(a) Society
(b) Government
(c) Competitors
(d) Technology

8.The emphasis on product design is very high, the intensity of competition is low, and the market growth rate is low in the _ _ stage of the industry life cycle.
(a) Maturity
b) Introduction
c) Growth
(d) Decline

1	(c)	2	(d)	3	(a)	4	(a)	5	(c)	6	(b)
7	(c)	8	(b)								

A) Scenario Based Questions

1.Rohit Sodhi runs a charitable organisation for promotion of sports in the country. His organisation conducts regular free training camps for youths interested in playing cricket, football, hockey, badminton and so on. Many of his trainees have reached national level contests. Rohit noticed that with success of IPL (Cricket) tournament there is an increasing trend to extend similar format in other sports as well. He wishes to know how the development is going to help sports and to which industries it will offer opportunities and threats?

Answer.

With the success of IPL, league matches are taking place in other sports as well. These are held in a grandeur manner between several teams. For example, league matches in magnificent manner now take place in Football, Kabaddi and Hockey in India. These events are profit and entertainment driven. These are going to help sports in India by generating interest in sports, making them more popular, increasing quality of competition and bringing money into sports. A number of entities and processes are involved in these events from various industries offering opportunities and threats to them. An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand, a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position. An opportunity is also a threat in case internal weaknesses do not allow organisation to take their advantage in a manner rival can. It will offer opportunity and threats to the following:

Opportunities

- Stadia.
- Manufacturers of sports goods.
- Media Industry - Sports channels / television, advertisers.
- Hotel Industry linking events with their offerings.

Threats

- Entertainment industry engaged in TV serials, cinema theatres, Entertainment theme parks as competitors will be fighting for the same viewers/target customers.
- Event Management organisation engaged in non-sports events.

2. Mr. Banerjee is head of marketing department of a manufacturing company. His company is in direct competition with thirteen companies at national level. He wishes to study the market positions of rival companies by grouping them into like positions. Name the tool that may be used by Mr. Banerjee? Explain the procedure that may be used to implement the technique.

Answer.

A tool to study the market positions of rival companies by grouping them into like positions is strategic group mapping. Grouping competitors is useful when there are many competitors such that it is not practical to examine each one in-depth. In the given scenario there are thirteen competitors. A strategic group consists of those rival firms which have similar competitive approaches and positions in the market. The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is as follows:

- Identify the competitive characteristics that differentiate firms in the industry typical variables that are price/ quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- Assign firms that fall in about the same strategy space to the same strategic group.
- Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

3. Mohan has joined as the new CEO of XYZ Corporation and aims to make it a dominant technology company in the next five years. He aims to develop competencies for managers for achieving better performance and a competitive advantage for XYZ Corporation. Mohan is well aware of the importance of resources and capabilities in generating competitive advantage.Discuss the four major characteristics of resources and capabilities required by XYZ Corporation to sustain the competitive advantage and its ability to earn profits from it.

Answer.

XYZ Corporation is aiming to transform into a dominant technology company under the leadership of Mohan, the new CEO. He aims to develop competencies for managers for achieving better performance and a competitive advantage for the corporation. Mohan is also well aware of the importance of resources and capabilities in generating and sustaining the competitive advantage. Therefore, he must focus on characteristics of resources and capabilities of the corporation.

The sustainability of competitive advantage and a firm's ability to earn profits from it depends, to a great extent, upon four major characteristics of resources and capabilities which are as follows:

- Durability: The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.
- Transferability: Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.
- Imitability: If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.
- Appropriability: Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

4. Airlines industry in India is highly competitive with several players. Businesses face severe competition and aggressively market themselves with each other. Luxury Jet is a private Delhi based company with a fleet size of 9 small aircrafts with seating capacity ranging between 6 seats to 9 seats. There aircrafts are chartered by big business houses and high net worth individuals for their personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by Luxury Jet.

Answer.

The Airlines industry faces stiff competition. However, Luxury Jet has attempted to create a niche market by adopting focused differentiation strategy. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Luxury Jet compete in the market based on uniqueness and target a narrow market which provides business houses, high net worth individuals to maintain strict schedules. The option of charter flights provided several advantages including, flexibility, privacy, luxury and many a times cost saving. Apart from conveniences, the facility will provide time flexibility. Travelling by private jet is the most comfortable, safe and secure way of flying your company's senior business personnel. Chartered services in airlines can have both business and private use. Personalised tourism packages can be provided to those who can afford it.

5. Gennex is a company that designs, manufactures and sells computer hardware and software. Gennex is well known for its innovative products that has helped the company to have advantage over its competitors. It also spends on research and development and concerned with innovative softwares. Often the unique features of their product, that are not available with their competitors helps them to gain competitive advantage. Gennex using the strategy is consistently gaining its position in the industry over its competitors. Identify and explain the Porter's generic strategy which Gennex has opted to gain the competitive advantage.

Answer.

According to Porter, strategies allow organisations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. Gennex has opted differentiation strategy. Its products are designed and produced to give the customer value and quality. They are unique and serve specific customer needs that are not met by other companies in the industry. Highly differentiated and unique hardware and software enables Gennex to charge premium prices for its products hence making higher profits and maintain its competitive position in the market. Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.

6. Sohan and Ramesh are two friends who are partners in their business of making biscuits. Sohan believe in making profits through selling more volume of products. Hence, he believes in charging lesser price to the customers. Ramesh, however, of the opinion that higher price should be charged to create an image of exclusivity and for this, he proposes that the product to undergo some change. Analyse the nature of generic strategy used by Sohan and Ramesh.

Answer.

Considering the generic strategies of Porter there are three different bases: cost leadership, differentiation and focus. Sohan and Ramesh are contemplating pricing for their product. Sohan is trying to have a low price and high volume is thereby trying for cost leadership. Cost leadership emphasises producing standardised products at a very low per unit cost for consumers who are price sensitive. Ramesh desires to create perceived value for the product and charge higher prices. He is trying to adopt differentiation. Differentiation is aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price insensitive.

7.Infant care is a successful store chain that caters products for expectant mothers and new moms. They offer everything from nursing classes to strollers, toys, infant clothes, diapers and baby furniture. Due to a one-stop shop for infants, they are charging a premium for its products. Identify and explain how the strategy adopted

Answer.

Infant care is opting for differentiation strategy. A one-stop shop is a benefit for this type of customers, seeking convenience in a time. Infant care is catering the products only related to an infant that is perceived by the customers as unique. Because of differentiation, the Infant care is charging a premium for its product.

8. A century-old footwear company "Mota Shoes" had an image of being the footwear choice for formal occasions. In an attempt to reinvent its brand, it tied up with a foreign footwear giant "Buffrine" to manufacture and sell its Hideseek brand in the country. Putting its best foot forward, it launched extra soft, casual and relaxed footwear for young. Aiming at a brand and image makeover the

"Mota Shoes" decided to price the Hide Seek products at premium.

What kind of Michael Porter business level strategy is being used by "Mota Shoe company"? State its advantages.

Answer.

Mota shoes is trying to use differentiation. This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product. A differentiation strategy has definite advantages as it may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

Rivalry: Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.

ii. Buyers: They do not negotiate for price as they get special features and also, they have fewer options in the market.

iii. Suppliers: Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.

iv. New entrants: Innovative features are expensive to copy. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.

v. Substitutes: Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

9. Rohit Patel is having a small chemist shop in the central part of Ahmedabad. What kind of competencies Rohit can build to gain competitive advantage over online medicine sellers?

Answer.

Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies. A small chemist shop has a local presence and functions within a limited geographical area. Still, it can build its own competencies to gain competitive advantage. Rohit Patel can build competencies in the areas of:

(i) Developing personal and cordial relations with the customers.

(ii)Providing home delivery with no additional cost.

(iii) Developing a system of speedy delivery that can be difficult to match by online sellers. Being in central part of city, he can create a network to supply at wider locations in the city.

(iv) Having extended working hours for convenience of buyers.

(v) Providing easy credit or a system of monthly payments to the patients consuming regular medicines.

10. 'Value for Money' is a leading retail chain, on account of its ability to operate its business at low costs. The retail chain aims to further strengthen its top position in the retail industry. Marshal, the CEO of the retail chain is of the view that to achieve the goals they should focus on lowering the costs of procurement of products. Highlight and explain the core competence of the 'Value for Money' retail chain.

Answer.

A core competence is a unique strength of an organisation which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. A core competency for a firm is whatever it does is highly beneficial to the organisation.

"Value for Money' is the leader on account of its ability to keep costs low. The cost advantage that 'Value for Money' has created for itself has allowed the retailer to price goods lower than competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

B) Descriptive Based Questions

11. What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organisation ?

Answer.

An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- Strength: Strength is an inherent capability of the organisation which it can use to gain strategic advantage over its competitors.
- Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- Opportunity: An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- Threat: A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment. Key reasons for SWOT analysis are:

- It provides a logical framework.
- It presents a comparative account.
- It guides the strategist in strategy identification.

12. Distinguish between Cost Leadership and Differentiation Strategies. (RTP Nov 2020)

Answer

Cost leadership emphasizes producing standardized products at a very low per- unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. Different strategies offer different degrees of differentiation. A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty.

C) ICAI PAST EXAM QUESTIONS

13.Mohan has joined as the new CEO of XYZ Corporation and aims to make it a dominant technology company in the next five years. He aims to develop competencies for managers for achieving better performance and a competitive advantage for XYZ Corporation. Mohan is well aware of the importance of resources and capabilities in generating competitive advantage. Discuss the four major characteristics of resources and capabilities required by XYZ Corporation to sustain the competitive advantage and its ability to earn profits from it. (Jan 2021)

Answer

XYZ Corporation is aiming to transform into a dominant technology company under the leadership of Mohan, the new CEO. He aims to develop competencies for managers for achieving better performance and a competitive advantage for the corporation. Mohan is also well aware of the importance of resources and capabilities in generating and sustaining the competitive advantage. Therefore he must focus on characteristics of resources and capabilities of the corporation. The sustainability of competitive advantage and a firm's ability to earn profits from it depends, to a great extent, upon four major characteristics of resources and capabilities which are as follows:

1. Durability - The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.
2. Transferability - Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.
3. Imitability - If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. Where capabilities require networks of organisational routines, whose effectiveness depends on the corporate culture, imitation is difficult.
4. Appropriability - Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

14. Core competencies provide edge to a business over its competitors. Discuss. Also, briefly state the three areas in which major core competencies are identified. (Jan 2021) (RTP Nov 2019)

Answer.

A core competence is a unique strength of an organisation which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. An organisation's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor. According to C.K. Prahalad and Gary Hamel, major core competencies are identified in following three areas:

1. Competitor differentiation - The Company can consider having a core competence if the competence is

is unique and it is difficult for competitors to imitate. This can provide a company an edge compared to competitors. It allows the company to provide better products and services to market with no fear that competitors can copy it.

2. Customer value - When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase them. If customer has chosen the company without this impact, then competence is not a core competence and it will not affect the company's market position.

3. Application of competencies to other markets - Core competence must be applicable to the whole organisation; it cannot be only one particular skill or specified area of expertise. Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence if it is not fundamental from the whole organisation's point of view. Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organisation to open up potential markets to be exploited.

15. What do you mean by differentiation strategy? How is it achieved? (May 2019)

Answer

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product. Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes.

To achieve differentiation, following measures can be adopted by an organisation-

- Offer utility for the customers and match the products with their tastes and preferences.
- Elevate the performance of the product.
- Offer the promise of high quality product/service for buyer satisfaction.
- Rapid product innovation.
- Taking steps for enhancing image and its brand value.
- Fixing product prices based on the unique features of the product and buying capacity of the customer.

16. Write a short note on the concept of cost leadership strategy and how to achieve it? (Nov 2019) (RTP May 2021)

Answer

Cost leadership strategy requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Accordingly, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits. The low cost leadership should be such that no competitors are able to imitate so that it can result in sustainable competitive advantage to the cost leader firm.

To achieve cost leadership, following are the actions that could be taken -

- Forecast the demand of a product or service promptly.
- Optimum utilisation of the resources to get cost advantages.
- Achieving economies of scale leads to lower per unit cost of product/service.
- Standardisation of products for mass production to yield lower cost per unit.
- Invest in cost saving technologies and try using advance technology for smart working.
- Resistance to differentiation till it becomes essential

17. ABC Ltd. is a beverage manufacturing company. It chiefly manufactures soft drinks. The products are priced on the lower side which has made the company a leader in the business. Currently it is holding 35 percent market share. The R & D of company developed a formula for manufacturing sugar free beverages. On successful trial and approval by the competent authorities, company was granted to manufacture sugar free beverages. This company is the pioneer to launch sugar free beverages which are sold at a relatively higher price. This new product has been accepted widely by a class of customers. These products have proved profitable for the company. Identify the strategy employed by the company ABC Ltd. and mention what measures could be adopted by the company to achieve the employed strategy. (Nov 2020)

Answer.

According to Porter, strategies allow organisations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.

ABC Ltd. has opted Differentiation Strategy. The company has invested huge amount in R & D and developed a formula for manufacturing sugar free beverages to give the customer value and quality. They are pioneer and serve specific customer needs that are not met by other companies in the industry. The new product has been accepted by a class of customers. Differentiated and unique sugar free beverages enable ABC Ltd. to charge relatively higher for its products hence making higher profits and maintain its competitive position in the market. Sugar free beverage of ABC Ltd. is being accepted widely by a class of customers.

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, and dealer network or customer service. To achieve differentiation, following strategies are generally adopted by an organisation-

- Offer utility to the customers and match products with their tastes and preferences.
- Elevate/Improve performance of the product.
- Offer the high-quality product/service for buyer satisfaction.
- Rapid product innovation to keep up with dynamic environment. Taking steps for enhancing brand image and brand value.
- Fixing product prices based on the unique features of product and buying capacity of the customer.

18.Spacetek Pvt. Ltd. is an IT company. Although there is cut throat competition in the IT sector, Spacetek deals with distinctive niche clients and is generating high efficiencies for serving such niche market. Other rival firms are not attempting to specialise in the same target market. Identify the strategy adopted by Spacetek pvt. Ltd. and also explain the advantages and disadvantages of that strategy. (Jan 2021)

Answer

Spacetek pvt. Ltd. company has adopted Focus strategy which is one of the Michael Porter's Generic strategies. Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialise in the same target segment. An organisation using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

Advantages of Focus Strategy

a) Premium prices can be charged by the organizations for their focused product/services.

b) Due to the tremendous expertise about the goods and services that organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focus Strategy

a) The firms lacking in distinctive competencies may not be able to pursue focus strategy.

b) Due to the limited demand of product/services, costs are high which can cause problems.

c) In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

D) ICAI RTP QUESTIONS

19. Write a short note on SWOT analysis. (RTP May 2021)

Answer

SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

a) Strength - Strength is an inherent capability of the organisation which it can use to gain strategic advantage over its competitor.

b) Weakness - A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

c) Opportunity - An opportunity is a favourable condition in the external environment which enables it to

strengthen its position.
d) Threat - An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.
The major purpose of SWOT analysis is to enable the management to create a firm - specific business model that will best align, fit or match an organisational resources and capabilities to the demands for environment in which it operates.

20. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies. Explain these four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. (RTP May 2020)
Answer
Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.
a) Valuable - Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.
b) Rare - Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.
c) Costly to imitate - Costly to imitate means such capabilities that competing firms are unable to develop easily. For example: Intel has enjoyed a first-mover advantage more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology, and brought microprocessors to market well ahead of the competitor. The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.
d) Non-substitutable - Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

E) Multiple Choice Questions

1.The goal of SWOT analysis is to strengths while. its threats and the organisation's opportunities and its weaknesses.
(a) avoid; neutralizing; correcting
(b) exploit; neutralizing; correcting
(c) avoid; capitalizing; neutralizing
(d) exploit; avoiding; ignoring

2. SWOT analysis is an evaluation of the organisation's strengths and weaknesses and its opportunities and threats.
(a) external; internal
(b) internal; internal
(c) external; external
(d) internal; external

3. External opportunities and threats are usually:
(a) the minor cause of organisational demise or success
(b)least important for CEOs and the board of directors
(c) not as important as internal strengths and weaknesses
(d)largely uncontrollable activities outside the organisation

4. The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon:
(a) Durability, reliability, transferability, approximately
(b) Appropriability, durability, transferability, imitability
(c) Transferability, imitability, reliability, approximately
(d) Imitability, durability, reliability, appropriability

5. Internal are activities in an organisation that are performed especially well.
(a) Opportunities
(b) Competencies
(c) Strengths
(d) Management

6.'Strategic group mapping' helps in-
(a) Identifying the strongest rival companies
(b) Identifying weakest rival companies
(c) Identifying weakest and strongest rival companies
(d) None of the above

7. In Michael Porter's generic strategy - emphasises producing standardised products at a very low per unit-cost for consumers who are price sensitive.
(a) Cheap leadership
(b) Inferior product leadership
(c) Cost leadership
(d) Cost benefit

8. Differentiation Strategy can be achieved by following measures:
1.Match products with tastes and preferences of customers.
2. Elevate the performance of the product.
3. Rapid product innovation
Which of the above is true:
(a) (1) and (2)
(b) (1) and (3)
(c) (2) and (3)
(d) (1), (2) and (3)

9. What are the three different bases given by Michael Porter's Generic Strategies to gain competitive advantage?
(a) differentiation, integration and compensation
(b) integration, focus and differentiation
(c) compensation, integration and focus
(d) cost leadership, differentiation and focus

10. A firm successfully implementing a differentiation strategy would expect:
(a) Customers to be sensitive to price increases.
(b) To charge premium prices.
(c) Customers to perceive the product as standard.
(d) To automatically have high levels of power over suppliers.

1	(b)	**2**	(d)	**3**	(d)	**4**	(b)	**5**	(c)	**6**	(c)
7	(c)	**8**	(d)	**9**	(d)	**10**	(b)				

Ch4 Strategic Choices

A) Scenario Based Questions

1.Gautam and Siddhartha two brothers are the owners of a cloth manufacturing unit located in Faridabad. They are doing well and have substantial surplus funds available within the business. They have different approaches regarding corporate strategies to be followed to be more competitive and profitable in future. Gautam is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies. On the other hand, Siddhartha desires to start another unit to produce readymade garments. Discuss the nature of corporate strategies being suggested by two brothers & risks involved in it. (May 2019)

Answer

Gautam wishes to diversify in a business that is not related to their existing line of product and can be termed as conglomerate diversification. He is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies, which is not related to their existing product. In conglomerate diversification, the new businesses/ products are disjointed from the existing businesses/products in every way; it is an unrelated diversification. In process/ technology/ function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position. On the other hand, Siddhartha seeks to move forward in the chain of existing product by adopting vertically integrated diversification/ forward integration. The cloth being manufactured by the existing processes can be used as raw material of garments manufacturing business. In such diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process and moves forward or backward in the chain. It enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain. Both types of diversifications have their own risks. In conglomerate diversification, there are no linkages with customer group, customer marketing functions and technology used, which is a risk. In the case of vertical integrated diversification, there is a risk of lack of continued focus on the original business.

2. XYZ Company is facing continuous losses. There is decline in sales and product market share. The products of the company became uncompetitive and there is persistent negative cash flow. The physical facilities are deteriorating and employees have low morale. At the board meeting, the board members decided that they should continue the organisation and adopt such measures such that the company functions properly. The board has decided to hire young executive Shayamli for improving the functions of the organisation. What corporate strategy should Shayamli adopt for this company and what steps need to be taken to implement the corporate strategy adopted by Shayamli? (Nov 2019)

Answer.

XYZ Company is facing continuous losses, decline in sales and product market share, persistent negative cash flow, uncompetitive products, declining market share, deterioration in physical facilities, low morale of employees. In such a scenario, Shayamli may choose turnaround strategy as this strategy attempts to reverse the process of decline and bring improvement in organisational health. This is also important as Board has decided to continue the company and adopt measures for its proper functioning. For success, Shayamli needs to focus on the short and long-term financing needs as well as on strategic issues. During the turnaround, the "product mix" may be changed, requiring the organisation to do some repositioning. A workable action plan for turnaround would involve-

Stage One – Assessment of current problems: In the first step, assess the current problems and get to the root causes and the extent of damage.

Stage Two – Analyse the situation and develop a strategic plan: Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan: If the organisation is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organisation to survive.

Stage Four – Restructuring the business: If the core business is irreparably damaged, then the outlook for the entire organisation may be bleak. Efforts to be made to position the organisation for rapid improvement.

Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organisation should begin to show signs of profitability, return on investments and enhancing economic value-added.

3.Arena Ltd. manufactures computers that are of low in production cost, competitive price, and quality to their competitor's product. Profits and market share are declining day by day. Shreekanth, a senior executive realises that drastic strategies have to be created for the survival of a company. After SWOT analysis by assessing the strengths and weaknesses, they come up with the conclusion that they cannot compete in the computers with the competitors. The management directs Shreekanth to act quick and develop a suitable strategic plan. Discuss the strategy which can be opted by Shreekanth.

Answer

Shreekant opt for turnaround strategy which is a highly-targeted effort to return Arena Ltd. to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations require turnaround strategy. Once turnaround is successful the organisation may turn to focus on growth. Conditions for turnaround strategies When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

Action plan for turnaround strategy

- Stage One – Assessment of current problems
- Stage Two – Analyze the situation and develop a strategic plan
- Stage Three – Implementing an emergency action plan
- Stage Four – Restructuring the business
- Stage Five – Returning to normal

4.Pizza Galleria was India's first pizza delivery chain enjoying monopoly for several years. However, after entry of Modino and Uncle Jack it is struggling to compete. Both Modino and Uncle Jack have opened several eateries and priced the product aggressively. In last four years the chain has suffered significant losses. The chain wishes to know whether they should go for turnaround strategy. List out components of action plan for turnaround strategy. (RTP Nov 2019)

Answer

Pizza Chain may choose to have turnaround strategy if there are -

- Persistent negative cash flow from business.
- Uncompetitive products or services.
- Declining market share. Deterioration in physical facilities.
- Over-staffing, high turnover of employees, and low morale.
- Mismanagement.

For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues. The chain may attempt to leverage the potential Indian market by engaging a new logistics partner. It may bring innovation in food items, as well as quality and improvements in the overall dine-in and delivery experience. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. A workable action plan for turnaround would involve –

Action plan for turnaround strategy

- Stage One – Assessment of current problems
- Stage Two – Analyse the situation and develop a strategic plan
- Stage Three – Implementing an emergency action plan
- Stage Four – Restructuring the business
- Stage Five – Returning to normal

5.Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides Organo with a significant amount of its fresh produce. Organo feels that by purchasing the farms, it will have greater control over its supply chain. Identify and explain the type of diversification opted by Organo? (RTP May 2020)

Answer

Organo is a large supermarket chain. By opting backward integration and purchase a number of farms, it will have greater control over its supply chain. Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

6.Swift Insurance is a company engaged in the business of providing medical insurance maintaing a market share of 25 to 30 per cent in last five years. Recently, the company decided to enter into the business of auto insurance by having foreign collaboration. Identify stretegy being followed by the Swift Insurance with its adv.

Answer

Overall Swift Insurance is following growth or expansion strategy as it is redefining the business and enlarging its scope. The step will also substantially increase investment in the business. The new business is related and at the same time caters to a different segment and accordingly can be termed as related diversification. The new business falls within the scope of general insurance and horizontally related to the existing business.

In the process of expansion, the company will be able to exploit:

- Its brand name.
- The marketing skills available.
- The existing sales and distribution infrastructure.
- Research and development.
- Economies of scale

7. With the global economic recession Soft Cloth Ltd. incurred significant losses in all its previous five financial years. Currently, they are into manufacturing of cloth made of cotton, silk, polyester, rayon, lycra and blends. Competition is also intense on account of cheap imports. The company is facing cash crunch and has not been able to pay the salaries to its employees in the current month. Suggest a grand strategy that can be opted.

Answer

Soft Cloth Ltd. is facing internal as well as external challenges. The external environment is in economic recession and the organization is facing cash crunch. The company needs to work on retrenchment / turnaround strategy. The strategy is suitable in case of issues such as –

- Persistent negative cash flow.
- Uncompetitive products or services
- Declining market share
- Deterioration in physical facilities
- Overstaffing, high turnover of employees, and low morale
- Mismanagement

The company may consider to substantially reduce the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. If the organisation chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

8. Vastralok Ltd., was started as a textile company to manufacture cloth. Currently, they are in the manufacturing of silk cloth. The top management desires to expand the business in the cloth manufacturing. To expand they decided to purchase more machines to manufacture cotton cloth. Identify and explain the strategy opted by the top management of Vastralok Ltd.

Answer

Vastralok Ltd. is currently manufacturing silk cloth and its top management has decided to expand its business by manufacturing cotton cloth. Both the products are similar in nature within the same industry. The strategic diversification that the top management of Vastralok Ltd. has opted is concentric in nature. They will be able to use existing infrastructure and distribution channel. Concentric diversification amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.

9.XYZ Co. was formed by the merger between a number of chemical companies. Since it aimed at expanding its presence in a large number of value added specialty chemical operations; within a few years the company involved in activities like bulk chemicals, explosives, fertilisers, paints and commodity plastics. But expanding the scope of business to so many businesses; little it did for the bottom line. On analysing, the top management found that although many of the businesses were linked in some way to the chemical industry, but there were far fewer synergies among the operations that it had initially thought. The top management explored and concluded that there was little commonality between bulk chemicals and fertilizers, between plastics and paints, between explosives and advanced materials. In other words, the value created by the diversification was questionable. After reading this scenario, what do think has gone wrong in this case? How do you think this problem can be rectified?

Answer

In the present scenario, the problem is related to diversification strategy to expand and mark its presence. Diversification can be either related or unrelated. Related diversification is when the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in related diversification there are benefits of synergy with the current operations as the new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/ product chain.

Whereas, in unrelated diversification, no such linkages exist; the new businesses/ products are disjointed from the existing businesses/products in every way. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position. In the present case, the company tried to diversify in products like bulk chemicals, explosives, fertilisers, paints and commodity plastics thinking that the diversification is linked in some way to the chemical industry. But when the bottom line did not improve with this diversification; the top management explored and found that there were far fewer synergies among the company's operations that it had initially thought. They was little commonality between bulk chemicals and fertilisers, between plastics and paints, between explosives and advanced materials which means that the company made a dire mistake in understanding whether the diversification was related or unrelated. The probable solution for this would be breaking up the company into constituent parts; may be two or three and put the related businesses into the relevant SBUs and consider selling off the businesses that are totally unrelated or totally get into unrelated diversification and form a structure accordingly.

B) Descriptive Based Questions

10.What is Divestment strategy? When is, it adopted? (RTP Nov 2020)

Answer

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. For a multiple product company, divestment could be a part of rehabilitating or restructuring plan called turnaround.

- A divestment strategy may be adopted due to various reasons:
- When a turnaround has been attempted but has proved to be unsuccessful.
- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the whole company.
- Severity of competition and the inability of a firm to cope with it.
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it.
- A better alternative may be available for investment.

11. Write short note on expansion through acquisitions and mergers. (RTP May 2020)

Answer

Acquisitions and mergers are basically combination strategies. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalised on friendly terms and both the organizations share profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers.

When one organization takes over the other organization and controls all its business operations, it is known as acquisition. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

12.Distinguish between concentric and conglomerate diversification

Answer

Concentric diversification occurs when a firm adds related products or markets. On the other hand, conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/product is disjointed from the existing businesses/products.The most common reasons for pursuing a concentric diversification are that opportunities in a firm's existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

13. Differentiate between divestment and liquidation strategy.

Divestment Strategy -	Liquidation Strategy -
Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center or SBU.	It involves closing down a firm and selling its assets.
Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Option of a turnaround may even be ignored if it is obvious that divestment is the only answer.	Liquidation becomes only option in case of severe and critical conditions where either turnaround and divestment are not seen as solution or have been attempted but failed..
Efforts are made for the survival of organization.	Liquidation as a form of retrenchment strategy is considered as the most extreme & unattractive.
Survival of organization helps in retaining personnel, at least to some extent.	There is loss stigma of failure.

14. Under what conditions would you recommend use of Turnaround strategy in an organization? What could be a suitable work plan for this?

Answer

Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organisation's first objective is to survive and then grow in the market; turnaround strategy is used when organisation's survival is under threat. Once turnaround is successful the organization may turn to focus on growth. Conditions for turnaround strategies: When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia, cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

Stage One – Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.
Stage Two – Analyze the situation and develop a strategic plan: Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organisational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.
Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.
Stage Four – Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.
During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche. The 'people mix' is another important ingredient in the organizations's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.
Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully
adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

15. What strategic option is available to the management of a sick company dealing in an electric home appliances? Give reasons for your answer.

Answer

A sick company has huge accumulated losses that have eroded its net worth. The electric home appliance company may analyse its various products to take decisions on the viability of each. Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon each contingency. Retrenchment strategy is adopted because:

- The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- The environment faced is threatening
- Stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

Retrenchment strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies.

Turnaround strategy: If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate revenue, improve coordination, better control, and so on. It may also involve changes in top management and reorienting leadership.

Divestment Strategy: Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Liquidation Strategy: In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium-and large-sized companies rarely liquidate in India. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition.

The management of a Sick company manufacturing various electrical home appliances be explained about the each of the above three options of retrenchment strategy with their pros and cons. But the appropriate advice with respect to a particular option of retrenchment strategy will depend on the specific circumstances of each electrical home appliances and management goals of the company.

16.What are acquisitions? Discuss with example of two companies resorting to this strategy?

Answer

Acquisition of or merger with an existing concern is an instant means of achieving the expansion.It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair. Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denote that the positive effects of the merged resources are greater than the some of the effects of the individual resources before merger or acquisition. Some of the recent / popular instances of acquisition are listed below -

- Tata's acquisition of Anglo Dutch steelmaker Corus
- Tata's acquisition of British Jaguar Land Rover
- Mittal Steel's takeover of Arcelor
- HPCL's acquisition of Kenya Petroleum Refinery Ltd.
- Hindalco's acquisition of Canada based Novelis

C) ICAI PAST EXAM QUESTIONS

17. Explain the Strategic Alliance. Describe the advantages of Strategic Alliance. (Nov 2019) (Nov 2023)

Answer

A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.

Advantages of Strategic Alliance

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows -

1. Organisational - Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Strategic partners may provide a good or service that complements thereby creating a synergy. Having a strategic partner who is well-known and respected also helps add legitimacy and creditability to a new venture.

2. Economic - There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value.

3.Strategic - Rivals can join together to cooperate instead of compete. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.
4. Political - Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically-influential partners may also help improve your own influence and position.

18.Briefly describe the meaning of divestment and liquidation strategy and establish difference between the two. (Nov 2020)

Answer

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Liquidation strategy is a retrenchment strategy considered the most extreme and unattractive strategy, which involves closing down a firm and selling its assets. Difference between Divestment strategy and Liquidation strategy -

Basis of Difference	Divestment Strategy	Liquidation Strategy
Meaning	Divestment strategy involves sale or liquidation of a portion of business.	Liquidation strategy involves closing down a firm and selling its business.
Policy option	Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Option of a turnaround may even be ignored if it is obvious that divestment is the only answer.	Liquidation becomes only option in case of severe and critical conditions where either turnaround or divestment are not seen as solution or have been attempted but failed.
Purpose	Efforts are made for survival of the organization.	Liquidation as a form of retrenchment strategy is unattractive and considered as the last resort.
Consequences	Survival of organization helps in retaining personnel, at least to some extent.	There is loss of employment and opportunities with stigma of failure.

19. X Pvt. Ltd. had recently ventured into the business of co-working spaces when the global pandemic struck.. This has resulted in the business line becoming unprofitable and unviable, and a failure of the existing strategy. However, the other businesses of X Pvt. Ltd. are relatively less affected by the pandemic as compared to the recent co-working spaces. Suggest a strategy for X Pvt. Ltd. with reasons to justify your answer. (Jan 2021)

Answer

It is advisable that divestment strategy should be adopted by X Pvt. Ltd. In the given situation where the business of co-working spaces became unprofitable and unviable due to Global pandemic, the best option for the company is to divest the loss making business.
Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy. Further, divestment helps address issues like:
1. Persistent cash flows from loss making segment could affect other profit-making segments, which is the case in the given scenario.
2. Inability to cope from the losses, which again is uncertain due to pandemic.
3. Better investment opportunity, which could be the case if X Pvt. Ltd. can inve st the money it generates from divestment.

D) ICAI RTP QUESTIONS

20. What is stability strategy? What are the reasons to pursue stability strategy? (RTP Nov 2019)

Answer

One of the important goals of a business enterprise is stability - to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business. A stability strategy is pursued by a firm when:

- It continues to serve in the same or similar markets and deals in same or similar products and services.
- The strategic decisions focus on incremental improvement of functional performance.

Major reasons for stability strategy are as follows -

- A product has reached the maturity stage of the product life cycle.
- It is less risky as it involves less changes and the staff feels comfortable with things as they are.
- The environment faced is relatively stable.
- Expansion may be perceived as being threatening.
- Consolidation is sought through stabilising after a period of rapid expansion.

21. General public is discerning from buying air conditioning units based on the Health Ministry guidelines regarding emergence of a contagious viral pandemic. Consequently, Nebula Pvt. Ltd, a manufacturer of evaporation coils used in air conditioning units has faced significant loss in working capital due to sharp fall in demand. The company conducted financial assessment and developed a workable action plan based on short and long term financial needs. But for immediate needs, an emergency plan has been implemented. It includes selling scrap, asset liquidation and overheads cost reduction. Further, to avoid any such untoward event in future, they plan to diversify into newer business areas along with its core business. Identify and explain the strategy opted by M/s. Nebula Pvt. Ltd.? (RTP Nov 2020)

Answer

M/s. Nebula Pvt. Ltd has opted Turnaround Strategy as the company while facing serious working capital crunch persistently conducted an assessment of current problem and developed a workable action plan based on short and long term financial needs and strategic issues. A workable action plan for turnaround would involve:

Stage One – Assessment of current problems: In the first step, assess the current problems and get to the root causes and the extent of damage.

Stage Two – Analyze the situation and develop a strategic plan: Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.

Stage Four – Restructuring the business: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.

Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

22.Mini theatre Ltd. was a startup venture of three young IIM graduates. They developed an application to watch web-based content like web series, TV Shows, theatre shows, etc. after purchasing their exclusive rights. They were successful in getting many consumers enrolled with them. After a certain span of time, the company realized that some regional content like 'bangla movies', 'Gujarati shows' etc. were having high cost and less viewership. The leadership team of Mini theatre Ltd. decided to sell the rights and curtail any further content development in these areas. Identify and explain the corporate strategy adopted by the leadership team of Mini theatre Ltd. (RTP May 2021)

Answer

The leadership team of Mini theatre Ltd. decided to cuts off the loss-making units, reduces the functions performed that some of regional content like 'bangla movies', 'Gujarati shows' etc. were having high cost and less viewership, it adopts a divestment strategy. The leadership team of Mini theatre Ltd. decided to sell the rights and curtail any further content development in these areas. Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

23.Justify the statement "Stability strategy is opposite of Expansion strategy". (RTP May 2021)

Answer

Stability Strategies, as name suggests, are intended to safeguard the existing interests and strengths of business. It involves organisations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on. A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in same products and services. In stability strategy, few functional changes are made in the products or markets, however, it is not a 'do nothing's strategy. This strategy is typical for mature business organizations. Some small organizations also frequently use stability as a strategic focus to maintain comfortable market or profit position. On the other hand, expansion strategy is aggressive strategy as it involves redefining the business by adding the scope of business substantially, increasing efforts of the current business. In this sense, it becomes opposite to stability strategy. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. Expansion also includes diversifying, acquiring and merging businesses. This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

E) MULTIPLE CHOICE QUESTIONS

1.Which strategy is implemented after the failure of turnaround strategy?
(a) Expansion strategy
(b) Diversification strategy
(c) Divestment strategy
(d) Growth strategy

2. Retrenchment strategy in the organization can be explained as
(a) Reducing trenches (gaps) created between individuals.
(b) Divesting a major product line or market.
(c) Removal of employees from job through the process of reorganization.
(d) Removal of employees from job in one business to relocate them in other business.

3. An organisation diversifies in backward sequence in the product chain and enters specific product/process to be used in existing products. It is:
(a) Forward diversification.
(b) Vertical diversification.
(c) Horizontal diversification.
(d) Reactive diversification.

4. Corporate strategy includes:
(i) expansion and growth, diversification, takeovers and mergers
(4) Vertical and horizontal integration, new investment and divestment areas (iii) determination of the business lines
From the combinations given below select a correct alternative:
(a) (i), and (ii)
(b) (i) and (ii)
(c) (ii) and (ii)
(d) (i) (i) and (i)

5. Vertical integration may be beneficial when
(a) Lower transaction costs and improved coordination are vital and achievable through vertical integration.
(b) Flexibility is reduced, providing a more stationary position in the competitive environment.
(c) Various segregated specializations will be combined.
(d) The minimum efficient scales of two corporations are different.

6.Stability strategy is a _ strategy.
(a) SBU level
(b) Corporate level
(c) Business level
(d) Functional level

7.Conglomerate diversification is another name for which of the following?
(a)Related diversification
(b)Unrelated diversification
(c) Portfolio diversification
(d) Acquisition diversification

8.Diversification primarily helps to:
(a) Reduce competition
(b)Reduce risk
(c)Reduce taxes
(d)Reduce costs

9.If suppliers are unreliable or too costly, which of these strategies may be appropriate?
(a) Horizontal integration
(b)Backward integration
(c)Market penetration
(d)Forward integration

1	(c)	**2**	(b)	**3**	(b)	**4**	(d)	**5**	(a)	**6**	(b)
7	(b)	**8**	(b)	**9**	(b)						

Ch4 Strategy Implementation and Evaluation

A) Scenario Based Questions

1.Ramesh, is owner of a popular brand of Breads. Yashpal, his son after completing Chartered Accountancy started assisting his father in running of business. The approaches followed by father and son in management were very different. While Ramesh preferred to use authority and having a formal system of defining goals and motivation with explicit rewards and punishments, Yashpal believed in involving employees and generating enthusiasm to inspire people to deliver in the organization. Discuss the difference in leadership style of father and son.

Answer.

Ramesh is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities. Such a leader believes in using authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Yashpal is follower of transformational leadership style.

The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance.

Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

2. Suresh Sinha has been recently appointed as the head of a strategic business unit of a large multiproduct company. Advise Mr Sinha about the leadership role to be played by him in execution of strategy.

Answer.

Leading change has to start with diagnosing the situation and then deciding which of several ways to handle it. Managers have five leadership roles to play in pushing for good strategy execution:

(i) Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.

(ii)Promoting a culture of esprit de corps that mobilises and energises organisational members to execute strategy in a competent fashion and perform at a high level.

(ili)Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.

(iv)Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.

(v)Pushing corrective actions to improve strategy execution and overall strategic performance.

3.KaAthens Ltd., a diversified business entity having business operations across the globe. The company leadership has just changed as Mr. D. Bandopadhyay handed over the pedals to his son Aditya Bandopadhyay, due to his poor health.

Aditya is a highly educated with an engineering degree from IIT, Delhi. However, being very young he is not clear about his role and responsibilities, In your view, what are the responsibilities of Aditya Bandopadhyay as CEO of the company.

Answer.

Aditya Bandopadhyay, an effective strategic leader of KaAthens Ltd. must be able to deal with the diverse and cognitively complex competitive situations that are characteristic of today's competitive landscape.

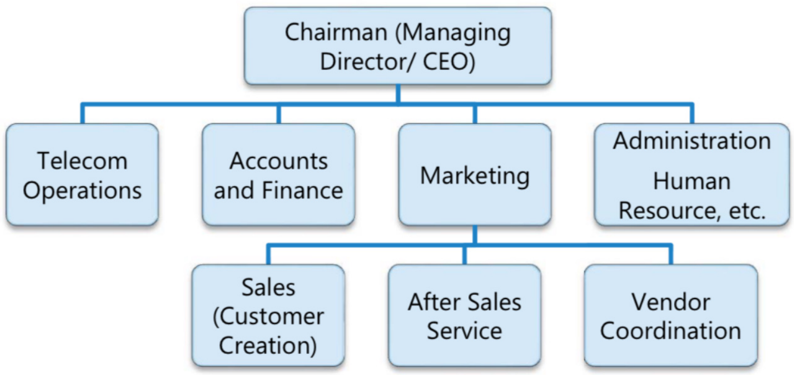
A Strategic leader has several responsibilities, including the following:

- Making strategic decisions.
- Formulating policies and action plans to implement strategic decision.
- Ensuring effective communication in the organisation.
- Managing human capital (perhaps the most critical of the strategic leader's skills).
- Managing change in the organisation.
- Creating and sustaining strong corporate culture.
- Sustaining high performance over time.

4. Manoj started his telecom business in 2010. Over next five years, he gradually hired fifty people for various activities such as to keep his accounts, administration, sell his products in the market, create more customers, provide after sales service, coordinate with vendors.
Draw the organization structure Manoj should implement in his organization and name it.

Answer.

Manoj has started a telecom business. Accounts, Administration, Marketing (customer creation, after sales service, vendor coordination) are the functional areas that are desired in the organisational structure. Further there is inherent need to have a department for the management of telecom services/ operations.Thus, the functional structure in the telecom business of Manoj can be as follows:



5. Moonlight Private Limited deals in multi-products and multi-businesses. It has its own set of competitors. It seems impractical for the company to provide separate strategic planning treatment to each one of its product or businesses. As a strategic manager, suggest the type of structure best suitable for Moonlight Private Limited and state its benefits.

Answer.

It is advisable for Moonlight Private Limited to follow the strategic business unit (SBU) structure.
Moonlight Private Limited has a multi-product and multi-business structure where, each of these businesses has its own set of competitors. In the given case, Strategic Business Unit (SBU) structure would best suit the interests of the company. SBU is a part of a large business organization that is treated separately for strategic management purposes. It is separate part of large business serving product markets with readily identifiable competitors. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.
Very large organizations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units, just as is the case for Moonlight Private Limited. SBU structure becomes imperative in an organization with increase in number, size and diversity. Benefits of SBUs:
1.Establishing coordination between divisions having common strategic interest.
2.Facilitate strategic management and control.
3.Determine accountability at the level of distinct business units.
4.Allow strategic planning to be done at the most relevant level within the total enterprise.
5Make the task of strategic review by top executives more objective and more effective.
6. Help to allocate resources to areas with better opportunities.
Thus, an SBU structure with its set of advantages would be most suitable for the company with the given diverse businesses having separate identifiable competitors, but a common organisational goal.

6. Sanya Private Limited is an automobile company. For the past few years, it has been observed that the progress of the company has become stagnant. When scrutinized, it was found that the planning department was performing fairly well but the plans could not be implemented due to improper use of resources, undesirable tendencies of workers and non-conformance to norms and standards. You are hired as a Strategic Manager. Suggest the elements of process of control to overcome the problem.

Answer.

Sanya Private Limited deteriorating performance due to poor implementation of plans that is improper use of resources, undesirable tendencies of the workers, and non-conformance to norms and standards, all point towards weak controls in the organization. Implementation of plans cannot assure results unless strong and sufficient controls are put in place. The management of the company should focus diligently on developing controls especially in the identified problem areas.

The process of control has the following elements:

(a) Objectives of the business system which could be operationalized into measurable and controllable standards.

(b) A mechanism for monitoring and measuring the performance of the system.

(c) A mechanism (i) for comparing the actual results with reference to the standards ii) for detecting deviations from standards and (iii) for learning new insights on standards themselves.

(d) A mechanism for feeding back corrective and adaptive information and instructions to the system, for effecting the desired changes to set right the system to keep it on course.

Above elements of control would ensure a proper check on improper use of resources, undesirable tendencies of the workers, and non-conformance to norms and standards and ensure a result oriented implementation of plans.

7.Jupiter Electronics Ltd. is known for its ability to come out with path-breaking products. Though the work environment at Jupiters is relaxed and casual, yet, there is a very strong commitment to deadlines. The employees believe in "work hard play hard" ethic. The organisation has moved away from formal and hierarchical set up to a more results-driven approach. Employees are committed to strategies and work towards achieving them. They guard innovations, maintain confidentiality and secrecy in their working. They are closely related to values, practices, and norms of organisations. What aspects of an organisation that are being discussed? Explain. (RTP Nov 2019)

Answer

The scenario being referred to is culture in Jupiter Electronics. Strong culture promotes good strategy execution when there's fit and impels execution when there's negligible fit. A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energise people throughout the organisation to do their jobs in a strategy- supportive manner. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility. This is very conducive to successful execution of a strategy of delivering superior customer service. A strong strategy-supportive culture makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realising the organisational vision, do their jobs competently and with enthusiasm, and collaborate with others.

8. Always Fit is a company that operates in pharmacy store chains. Its stores are specialised in providing prescribed medicines, health and wellness products etc. in the country. The store chain is having surplus space which can be utilised for other purposes. Azad, a senior executive of the research and development wing in the company conceives an idea to manufacture and sell the cosmetic products for utilising the surplus space available in the pharmacy stores. Identify and explain the role of Azad in company.

Answer

Azad plays role as an intrapreneur who operates within the boundaries of an organisation. He is an employee of Always Fit, who is vested with authority of initiating creativity and innovation in the company's products, services and projects, redesigning the processes, workflows and systems. Azad believes in change and do not fear failure. He discovers a new idea which can benefit the whole organisation by utilising the surplus space in the stores. The job of Azad is extremely challenging. He gets recognition and reward for the success achieved.

B) Descriptive Based Questions

9. What is a strategic business unit? What are its advantages?

Answer.

A strategic business unit (SBU) is any part of a business organization which is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure. It is discrete element of the business serving product markets with readily identifiable competitors and for which strategic planning can be concluded. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

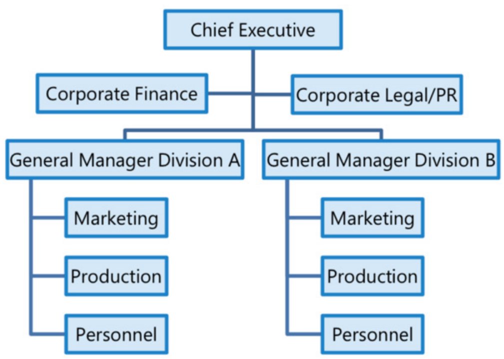
Advantages of SBU are:

- Establishing coordination between divisions having common strategic interests.
- Facilitates strategic management and control on large and diverse organizations.
- Fixes accountabilities at the level of distinct business units.
- Allows strategic planning to be done at the most relevant level within the total enterprise.
- Makes the task of strategic review by top executives more objective and more effective.
- Helps allocate corporate resources to areas with greatest growth opportunities.

10. Draw 'Divisional Structure' with the help of a diagram. Also, give advantages and disadvantages of this structure in brief.

Answer.

Divisional structure is that organisational structure which is based on extensive delegation of authority and built on division basis. The divisional structure can be organised in one of the four ways: by geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and in each division separately.



Advantages of Divisional Structure

- Accountability is clear: Divisional managers can be held responsible for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances and thus their morale is high.
- Other advantages: It creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products to be added easily.

Disadvantages of Divisional Structure

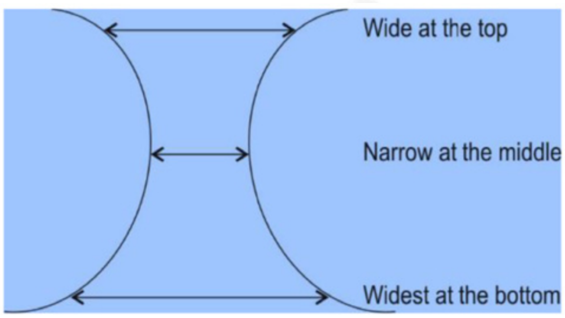
- Higher cost: Owing to following reasons: i). requires qualified functional specialist at different divisions and needed centrally (at headquarters); ii). It requires an elaborate, headquarters -driven control system.
- Conflicts between divisional managers: Certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, company-wide practices.

11. What is an 'hourglass structure'? How can this structure benefit an organization?

Answer.

In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers in an organisation structure with constricted middle layer. The structure has a short and narrow

middle management level.
Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities.



Hourglass Organization Structure

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management, the promotion opportunities for the lower levels diminish significantly.

12. Difference between transformational and transactional leadership
Answer.
Difference between transformational and transactional leadership
1.Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. Transactional leadership style uses the authority of its office to exchange rewards such as pay, status symbols etc.
2. Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organisations, when there is a need to inspire a company to embrace major changes. Transactional leadership style can be appropriate in static environment, in growing or mature industries and in organisations that are performing well.
3Transformational leaders inspire employees by offering excitement, vision, intellectual stimulation and personal satisfaction. Transactional leaders prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. Transactional leaders focus mainly to build on existing culture and enhance current practices.

13.What is strategic change? Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies?
Answer.
The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies.
Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business.
To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.
(a) Unfreezing the situation: The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization.
Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change.
Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements,
holding meetings and promoting the ideas throughout the organization.

(b) Changing to New situation: Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman proposed three methods for reassigning new patterns of behavior as compliance, identification and internalisation.
(c) Refreezing: Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this newly acquired behaviour does not diminish or extinguish.
Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

14.What are the differences between operational control and management control?
Answer.
Differences between Operational Control and Management Control are as under:
(i) The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.
(ii) Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand, the basic purpose of management control is the achievement of enterprise goals - short range and long range - in an effective and efficient manner.

15. What is strategic control? Briefly explain the different types of strategic control.
Answer.
Strategic Control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.
There are four types of strategic control:

Premise control: A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.

Strategic surveillance: Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organisational strategy.

Special alert control: At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.

Implementation control: Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.

16. What is implementation control? Discuss its basic forms.
Answer.
Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.
Strategic implementation control is not a replacement to operational control.
Strategic implementation control, unlike operational controls

monitors the basic direction of the strategy. The two basic forms of implementation control are:

Monitoring strategic thrusts: Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

Milestone Reviews. All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

C) ICAI PAST EXAM QUESTIONS

17.What is strategic control? Kindly explain the statement that "premise control is a tool for systematic and continuous monitoring of the environment". (Nov 2020)

Answer

Strategic control is the process of evaluating formulated and implemented strategy. It is directed towards identifying changes in the internal and external environments of the organization and making necessary adjustments accordingly.Strategic Control focuses on the dual questions of whether:

(1) the strategy is being implemented as planned; and

(2) the results produced by the strategy are those intended.

Yes, Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors –

a) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory.

b) Industry factors such as competitors, suppliers, substitutes.

It is neither feasible nor desirable to control all types of premises in the same manner. Different premises may require different amount of control. Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

18. Sanya Private Limited is an automobile company. For the past few years, it has been observed that the progress of the company has become stagnant.. When scrutinized, it was found that the planning department was performing fairly well but the plans could not be implemented due to improper use of resources, undesirable tendencies of workers and non-conformance to norms and standards. You are hired as a Strategic Manager. Suggest the elements of process of control to overcome the problem. (Jan 2021)

Answer

Sanya Private Limited deteriorating performance due to poor implementation of plans that is improper use of resources, undesirable tendencies of the workers, and non- conformance to norms and standards, all point towards weak controls in the organization. Implementation of plans cannot assure results unless strong and sufficient controls are put in place. The management of the company should focus diligently on developing controls especially in the identified problem areas. The process of control has the following elements:

a) Objectives of the business system which could be operationalised into measurable and controllable standards.

b) A mechanism for monitoring and measuring the performance of the system.

c) A mechanism (i) for comparing the actual results with reference to the standards (ii) for detecting deviations from standards and (iii) for learning new insights on standards themselves.

d) A mechanism for feeding back corrective and adaptive information and instructions to the system, for effecting the desired changes to set right the system to keep it on course.

Above elements of control would ensure a proper check on improper use of resources, undesirable tendencies of the workers, and non-conformance to norms and standards and ensure a result oriented implementation of plans.

19. Moonlight Private Limited deals in multi-products and multi-businesses. It has its own set of competitors. It seems impractical for the company to provide separate strategic planning treatment to each one of its product or businesses. As a strategic manager, suggest the type of structure best suitable for Moonlight Private Limited and state its benefits. (Jan 2021)

Answer

It is advisable for Moonlight Private Limited to follow the strategic business unit (SBU) structure. Moonlight Private Limited has a multi-product and multi-business structure where, each of these businesses has its own set of competitors. In the given case, Strategic Business Unit (SBU) structure would best suit the interests of the company. SBU is a part of a large business organization that is treated separately for strategic management purposes. It is separate part of large business serving product markets with readily identifiable competitors. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests. Very large organizations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units, just as is the case for Moonlight Private Limited. SBU structure becomes imperative in an organization with increase in number, size and diversity.

Benefits of SBUs -

- Establishing coordination between divisions having common strategic interest.
- Facilitate strategic management and control.
- Determine accountability at the level of distinct business units.
- Allow strategic planning to be done at the most relevant level within the total enterprise.
- Make the task of strategic review by top executives more objective and more effective.
- Help to allocate resources to areas with better opportunities.

Thus, an SBU structure with its set of advantages would be most suitable for the company with the given diverse businesses having separate identifiable competitors, but a common organisational goa .

20. Elucidate - Matrix Structure (Jan 2021)

Answer

In matrix structure, functional and product forms are combined simultaneously at the same level of tl e organization. Employees have two superiors, a product / project manager and a functional manager. Tne "home" department - that is, engineering, manufacturing, or marketing - is usually functional and is reasonably permanent. People from these functional units are often assigned temporarily to one or more product units or projects. The product units / projects are usually temporary and act like divisions in that they are differentiated on a product-market basis. The matrix structure may be very appropriate when organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms like strategic business units, are right for the implementation of their strategies. Matrix structure was developed to combine the stability of the functional structure with flexibility of the product form. It is very useful when the external environment (especially its technological and market aspects) is very complex and changeable. A matrix structure is most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication. It may result in higher overhead costs due to
more management positions.

The matrix structure is often found in an organization when the following three conditions exist:

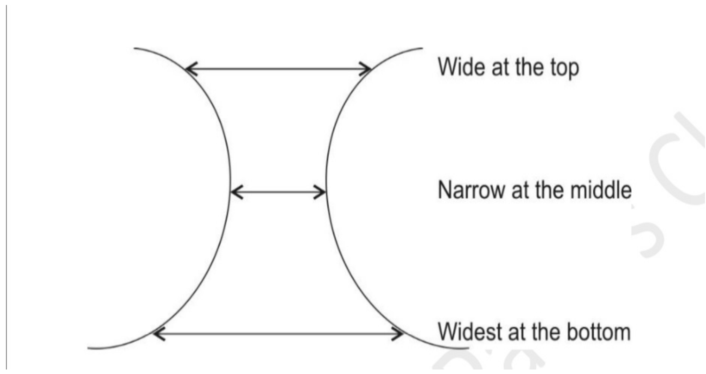
- Ideas need to be cross-fertilised across projects or products;
- Resources are scarce; and
- Abilities to process information and to make decisions need to be improved

D) ICAI RTP QUESTIONS

21. Delta is an organization specialising in Information Technology enables Services (ITeS) and Communications business. Previous year the organization had successfully integrated an Artificial Intelligence (AI) tool named 'Zeus' into the existing ERP system. The AI tool using Deep Learning technique provided a digital leap transformation in various business processes and operations. It has significantly diminished the role played by specialist managers of the middle management. This technological tool in addition to saving organisational costs by replacing many tasks of the middle management, has also served as a link between top and bottom levels in the organization and assists in faster decision making. The skewed middle level managers now perform cross-functional duties. Which type of organisational structure is the company transitioning into? (RTP Nov 2020)

Answer

The company Delta is transitioning into the Hourglass organization structure because it has used technological tools to transform various business processes and operations and has significantly diminished the role played by specialist managers of the middle management. The technological tool in addition to savings organisational costs by replacing many tasks of the middle management has also served as a link between top and bottom levels in the organization and assists in faster decision making. The skewed middle level managers now perform cross-functional duties. All these factors indicate towards Hourglass organization structure.



22. Suraj Prakash and Chander Prakash are two brothers engaged in the business of spices. Both have different approaches to management. Suraj Prakash prefers the conventional and formal approach in which authority is used for explicit rewards and punishment. While, on the other hand, Chander Prakash believes in democratic participative management approach, involving employees to give their best. Analyse the leadership style followed by Suraj Prakash and Chander Prakash. (RTP May 2021)

Answer

Suraj Prakesh is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities. Such a leader believes in using authority of its office to exchange rewards, such as pay and status. They prefer a more formalised approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non- achievement. Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Chander Prakash is a follower of transformational leadership style. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organisational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self -confidence, and also promote innovation throughout the organization.

23. How can management communicate that it is committed to creating a new culture assuming that the old culture was problematic and not aligned with the company strategy? (RTP May 2021)

Answer

Corporate culture refers to company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Changing problem cultures is very difficult because of deeply held values and habits. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instil ones that are more strategy-supportive.

- The first step is to diagnose which facets of the present culture are strategy supportive and which are not.
- Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
- The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.

Management through communication has to create a shared vision to manage changes. The menu of culture-changing actions includes revising policies and procedures, altering incentive compensation, shifting budgetary allocations for substantial resources to new strategy projects, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

E) MULTIPLE CHOICE QUESTIONS

1. _________ leadership style may be appropriate in turbulent environment.

(a) Transactional
(b) Transformational
(c) Autocratic
(d) None of these

2. An organizational structure with constricted middle level is:

(a) Divisional structure
(b) Network structure
(c) Hour Glass structure
(d) Matrix structure

3. You are the head of operations of a company. When you focus on total or aggregate management functions in the sense of embracing the integrated activities of a complete department et al, you are practicing: -

(a) Strategic Control
(b) Management control
(c) Administrative Control
(d) Operations Control

4. Which of the following would be chosen by the core strategist to implement operational control: -

(a) Premise Control
(b Special Alert Control
(c) Implementation Control
(d) Budgetary Control

5. Compliance, Identification and Internalisation are the three processes involved in:

(a) Refreezing
(b) Defreezing
(c) Changing behaviour patterns
(d) Breaking down old attitudes

6. Which one is NOT a type of strategic control?
(a) Operational control
(b) Strategic surveillance
(c) Special alert control
(d) Premise control

1	(b)	**2**	(c)	**3**	(b)	**4**	(d)	**5**	(c)	**6**	(a)

PAPER 7 - SECTION – B: STRATEGIC MANAGEMENT

*Question paper comprises of **5** questions, Answer Question No. **6** which is compulsory and any **3** out of the remaining **4** questions.*

Question 6

Ramesh and Suresh own software development firms ACS Ltd. and BDS Ltd. Ramesh and Suresh pitch their business in international markets and win international contracts. Ramesh has fifty software engineers in his team. Suresh, on the other hand, leads a team of forty software engineers. Every project has a specific and fixed timeline. Individual projects are assigned to project heads by Ramesh and Suresh. Ramesh adheres to strict rules and procedures. He met with the project heads to get an update but exchanged ideas occasionally. He set a weekly target of forty hours to complete the assigned goal or task. The group that met the deadline and completed the task received a 10% bonus. The group that was unable to meet the deadline was penalized. The group that did not meet the deadline was penalized with unpaid extra working hours to complete the task. Suresh, unlike Ramesh, did not priorities a structured approach to work. Suresh inspired the project managers by making them feel like leaders rather than just participants. Suresh's empowering attitude helped to align individual goals with group goals. Ramesh established routines to maximize his team efficiency. Suresh, on the other hand, used positive reinforcement to maximize his team efficiency.

(a) Identify the leadership style employed by Ramesh and Suresh.

(b) What are the conditions/situations that make such leadership styles more appropriate?

(c) Discuss the characteristics of the leadership styles.

Answer

(i) **Ramesh adopted transactional leadership style, while Suresh adopted transformational leadership style.**

(ii) Transactional leadership style can be **appropriate in settled and static environment, in growing or mature industries and in organizations that are performing well.**

Transformational leadership style may be **appropriate in turbulent environment**, in industries at the very start or end of their life cycles, **in poorly performing organizations** when there is a need to inspire a company to embrace major changes.

(iii) **Transactional leadership style uses the authority** of its office to exchange rewards such as pay, status symbols etc. **Transactional leaders prefer a more formalized approach** to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. **Transactional leaders focus mainly to build on existing culture and enhance current practices**.

Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. **Transformational leaders inspire employees by offering excitement, vision, intellectual stimulation and personal satisfaction.**

Question 7

(a) *"Management at all levels develop strategies". Explain the different strategies formulated at different levels of management.*

(b) *"The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends on characteristics of resources and capabilities". Explain this statement.*

Answer

(a) At different levels of management, various strategies are formulated to align with organizational goals and objectives which are as follows:

Corporate-Level Strategies: At the **highest level of management,** corporate-level strategies are developed. **These strategies focus on the overall direction and scope of the entire organization.** Major corporate-level strategies include **Stability strategies, Growth strategies, Retrenchment strategies and Combination strategies.**

Business-Level Strategies: Business-level strategies are developed by **middle-level management** and focus on individual business units or divisions within the organization. **These strategies aim to achieve competitive advantage within specific markets.** Common business-level strategies include **Cost Leadership, Differentiation and Focus strategies.**

Functional-Level Strategies: Functional-level strategies are formulated by **lower-level management** or department heads responsible for specific functional areas, such as marketing, finance, operations, or human resources. **These strategies align with business-level strategies and focus on achieving functional objectives.** These strategies include **Marketing strategies, Financial strategies, Operations strategies, Research & Development strategy and Human Resource strategies.**

In conclusion, management at all levels develops strategies that align with the organization's goals. ***Corporate-level strategies determine the overall direction, business-level strategies focus on competitive advantage within specific markets, and functional-level strategies aim to achieve functional objectives in support of the broader strategies.***

(b) The sustainability of competitive advantage and a firm's ability to earn profits from it depends, to a great extent, upon four major characteristics of resources and capabilities which are as follows:

1. **Durability:** The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.

2. **Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

3. **Imitability:** If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

4. **Appropriability:** Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

Question 8

(a) Health Pharma Pvt. Ltd. (HPPL) a one person company with limited liability is manufacturing generic and medicinal drugs in India.

Hygiene Laboratories Plc. (HLP) a multinational company with its strong financial position is one of the major players in pharmaceutical sector.

Individually, each company has its own core competencies. However, additional focus by the state on generic medicine with renewed regulatory requirements are posing challenges in fierce competitive environment.

Considering benefits of synergies, both the companies are considering to join hands for better growth opportunities. Earlier, they tried to go for joint venture or strategic alliance but the arrangement could not materialize.

In view of the facts given above:

(i) If HPPL and HLP join hands and make new entity named Health N Hygiene Pharma Ltd., what type of growth strategy will this strategic development be?

(ii) In case, HLP is sold out to HPPL and HLP ceased to exist, what type of growth strategy will this strategic deal be?

(iii) What are the differences between the above two identified growth strategies?

(b) Buyers of an industry's products or services can sometimes exert considerable pressure on the company. In the light of the five forces as propagated by Michael Porter explain this force. Also state as to when this leverage is evident.

Answer

(a) (i) If HPPL and HLP join hands and form a new entity named Health N Hygiene Pharma Ltd., this strategic development would be considered a Merger growth strategy. A merger is a combination of two or more companies to form a new entity with shared ownership and control.

(ii) If HLP is sold out to HPPL and HLP ceases to exist, this strategic deal would be categorized as an Acquisition growth strategy. An acquisition occurs when one company purchases another, resulting in the acquiring company gaining control over the acquired company's assets, operations, and intellectual property.

(iii) Many organizations in order to achieve quick growth, expand or diversify with the use of mergers and acquisitions strategies. Merger and acquisition in simple words are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms, but the impact of combination is completely different in both the cases.

Merger is considered to be a process when two or more organizations join together to expand their business operations. In such a case **the deal gets finalized on friendly terms. Owners of pre-merged entities have right over the profits of new entity.** In a merger **two organizations combine to increase their strength and financial gains.**

While, when one organization takes over the other organization and controls all its business operations, it is known as **acquisition**. In the process of acquisition, **one financially strong organization overpowers the weaker one.** Acquisitions often happen during economic recession or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. **The combined operations then run under the name of the powerful entity.** A deal in case of an acquisition is **often done in an unfriendly manner;** it is more or less a forced association.

(b) Bargaining Power of Buyers: This is another force that influences the competitive condition of an industry. **This force becomes heavier depending on the possibility of buyers forming groups or cartels.** Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or even informally and exert pressure on the producer. **The bargaining power of the buyers influences not only the prices that the producer can charge but also influences costs and investments of the producer.** This is because powerful buyers usually bargain for better services which involves more investment on the part of the producer.

Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services. This leverage is particularly evident when;

(i) Buyers have full knowledge of the source(s) of products and their substitutes. Thus, challenging the price being charged by producers.

(ii) They spend a lot of money on the industry's products i.e. they are big buyers. Thus, in a position to demand favourable terms of contract.

(iii) The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

Question 9

(a) Strategic planning is an important constituent of strategic management. In the light of the same explain the meaning of strategic planning. Also outline the characteristics of strategic planning.

(b) "Strategic control focuses on implementation and results produced by the strategy". Explain strategic control along with its different types.

Answer

(a) Yes, strategic planning is an important constituent of strategic management. It is a process of determining organizational strategy. **It gives directions to the organization and involves making decisions and allocating resources to pursue the strategy.** It is the formal blueprint of future course of an organization.

Strategic plans are made by the senior management for the entire organization after taking into account the **organization strength and weaknesses** in the light of opportunities and threats in the external environment. They involve **acquisition and allocation of resources for the attainment of organizational objectives.**

Strategic planning deals with one or more of three key questions:

- What are we doing?
- For whom do we do it?
- How to improve and excel?

Following are the characteristics of strategic planning:

- Strategic planning shapes the organisation and its resources.
- Strategic planning assesses the impact of environmental variables.
- Strategic planning takes a holistic view of the organisation.
- Strategic planning develops overall objectives and strategies.
- Strategic planning is concerned with the long-term success of the organisation.
- Strategic planning is a senior management responsibility.

(b) Strategic control focuses on implementation and results produced by the strategy. It focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

There are four types of strategic control:

♦ **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.

♦ **Strategic surveillance:** Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.

♦ **Special alert control:** At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.

♦ **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.

Question 10

(a) Changes in environmental forces often require businesses to make modifications in their existing strategies. In view of the same explain the areas to be focused while considering concept of strategic change. Also explain the steps to initiate strategic change process.

(b) Ratu has been as CEO of PRO Ltd. He is given the responsibility of developing new products and improving old products. He is facing a conflict whether the firm should develop research and development expertise internally or outsource it to external agency. What guidelines will help Ratu to make this decision?

OR

You have been appointed as head of the Strategic Business Unit (SBU) of a large multiproduct company. Explain the leadership roles, you have to play as a Manager in pushing for good strategy execution.

Answer

(a) The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. **Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.**

For initiating strategic change, three steps can be identified as under:

(i) ***Recognize the need for change***: The first step is to diagnose facets of the corporate culture that are strategy supportive or not. The idea is to determine where the lacuna lies and scope for change exists.

(ii) ***Create a shared vision to manage change***: Objectives and vision of both individuals and organization should coincide. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance.

(iii) ***Institutionalize the change***: Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. All these changes should be set up as a practice to be followed by the organization and be able to transfer from one level to another as a well settled practice.

(b) A critical question is whether PRO Ltd. should develop research and development expertise internally or outside to external agencies. **The answer to this critical question mainly depends on rate of technology progress and rate of market**

growth. The following guidelines can be used by Ratu, the CEO of PRO Ltd. to help make this decision:

- **If the rate of technical progress is slow, the rate of market growth is moderate,** and there are significant barriers to possible new entrants, then **in-house R&D is the preferred solution.** The reason is that R&D, if successful, will result in a temporary product or process monopoly that the company can exploit.
- **If technology is changing rapidly and the market is growing slowly,** then a **major effort in R&D may be very risky**, because it may lead to the development of an ultimately obsolete technology or one for which there is no market.
- **If technology is changing slowly but the market is growing quickly,** there generally is not enough time for in-house development. The prescribed approach **is to obtain R&D expertise on an exclusive or non-exclusive basis from an outside firm.**
- **If both technical progress and market growth are fast**, R&D expertise should **be obtained through acquisition** of a well-established firm in the industry.

Or

A head of the strategic business unit (SBU) has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader. Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

Past Year Questions with suggested answers Nov'22

PAPER 7 - SECTION – B: STRATEGIC MANAGEMENT

Question paper comprises of 5 questions, Answer Question No. 6 which is compulsory and any 3 out of the remaining 4 questions.

Question 6

Quick N Sturdy Inc., a multinational company, is undergoing feasibility study to introduce new luxury and sports car for specific group of customers. The product is meant for customers with distinctive preferences and special requirements. The product is not a standard one and as such the target market is also narrow. Company knows that demand for the product is large enough to be profitable for the company, but small enough to be ignored by other major industry players. The company wants to position itself in the niche market with the prime consideration to offer unique features in the product for the target market.

In the given situation, identify the generic strategy as suggested by Michael Porter. Also state the advantages and disadvantages of such strategy. ***(1 + 2 + 2 = 5 Marks)***

Answer

Quick N Sturdy Inc. has adopted **Focused Differentiation Strategy** which is one of the Michael Porter's Generic strategies. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. ***Firms that compete based on uniqueness and target a narrow market are following a focused differentiation strategy.***

Advantages of Focused Strategy

1. Premium prices can be charged by the organisations for their focused product/services.
2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high, which can cause problems.
3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

Question 7

(a) "The strategic management cannot counter all hindrances and always achieve success for an organization." Do you agree with this statement? Give arguments in support of your answer. ***(1+ 4 = 5 Marks)***

(b) *You have been appointed as a Chief Executive Officer (CEO) in a company which is facing many difficulties in proper execution of its strategy. Explain the leadership roles which you should play in pushing for good strategy execution.* ***(5 Marks)***

Answer

(a) **Yes,** it is true that the presence of strategic management cannot counter all hindrances and always achieve success for an organization. This is on account of complex multiple forces acting on business organization and limiting its success.

These limitations are on account of following factors:

- **Environment is highly complex and turbulent.** It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.
- **Strategic management is a time-consuming process.** Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- **Strategic management is a costly process.** Strategic management adds a lot of expenses to an organization – particularly to small and medium organisations. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement.
- **Competition is unpredictable.** In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

(b) A Chief Executive Officer (CEO) has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader. Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.

5. Pushing corrective actions to improve strategy execution and overall strategic performance.

Question 8

(a) A company started its operation in 2015 with Product Alpha. In early 2021, with intent to have its better presence in the market, the company diversifies by acquiring a company with product Beta. After sometime, it was observed that product Beta is not faring well. Aggressive competition was therein market for the product. It was also revealed that though customers are not price sensitive, but product was not keeping pace with the fast changing unique features as expected by its customers.

Company has tried one of the retrenchment strategies by putting efforts to improve its internal efficiency, but could not get desired results. In the situation, company is of a considered view to remain and grow in product alpha and to decouple with product Beta from its portfolio.

As a strategist, suggest the retrenchment strategy to be adopted by the company. Also delineate reasons why a company should adopt such strategy? ***(1+ 4 = 5 Marks)***

(b) What is cost leadership strategy? Under what circumstances an organization can gain competitive advantages from cost leadership strategy? Is there any risk in pursuing cost leadership strategy? ***(1+ 3 + 1 = 5 Marks)***

Answer

(a) As per the facts of the case, company had tried to improve its internal efficiency. In other words, had tried turnaround strategy but could not get the desired results.

Company does not want to go for complete close down of business. Rather it wants to continue and grow in its original business i.e. product Alpha.

As a strategist, it is advisable that the company should adopt **divestment strategy**. In the given situation where the business of product Beta is not faring well and became unprofitable and unviable due to aggressive competition in the market, the best option for the company is to divest the product Beta which is loss-making business.

Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy.

A divestment strategy may be adopted due to various reasons:

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.

3. Severity of competition and the inability of a firm to cope with it may cause it to divest.
4. It is not possible for the business to do Technological up-gradation that is required for the business to survive, a preferable option would be to divest.
5. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable business.

(b) **Cost leadership strategy** emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. It frequently results from productivity increases and aggressive pursuit of cost reduction throughout the development, production, marketing, and distribution processes. It allows a firm to earn higher profits than its competitors.

The circumstances in which an organization can gain competitive advantages from cost leadership strategy are:

- when the market is composed of many price-sensitive buyers.
- when there are few ways to achieve product differentiation.
- when buyers do not care much about differences from brand to brand.
- when there are a large number of buyers with significant bargaining power.

The basic idea is to underprice competitors and thereby gain market share driving some of the competitors out of the market.

Some risks of pursuing cost leadership are:

- that competitors may imitate the strategy, therefore driving overall industry profits down
- that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.

Question 9

(a) *"The TOWS Marix is a tool for generating strategic options/choices." Do you agree with this statement? How it can help a strategist in decision making?* ***(1 + 4 = 5 Marks)***

(b) *"Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives." In the light of this statement, discuss the elements of strategic intent.* ***(5 Marks)***

Answer

(a) **Yes,** TOWS Matrix is a relatively simple tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

SO (Maxi-Maxi): Aggressive strategy - SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities.

ST (Maxi-Mini): Conservative strategy - ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

WO (Mini-Maxi): Competitive strategy - The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited to maximum.

WT (Mini-Mini): Defensive strategy - WT is a position that any firm will try to avoid. An organization facing external threats and internal weaknesses may have to struggle for its survival.

The matrix is outlined below:

Internal External	**Strengths – S** List Strengths	**Weaknesses – W** List Weaknesses
Opportunities – O List Opportunities	**SO Strategies** Use strengths to take advantage of opportunities	**WO Strategies** Overcoming weaknesses by taking advantage of opportunities
Threats – T List Threats	**ST Strategies** Use strengths to avoid threats	**WT Strategies** Minimize weaknesses and avoid threats

Figure: The TOWS Matrix

By using TOWS Matrix, a strategist can look intelligently at how he can best take advantage of the opportunities open to him, at the same time that he can minimize the impact of weaknesses and protect himself against threats. Used after detailed analysis of threats, opportunities, strength and weaknesses, it helps the strategist to consider how to use the external environment to his strategic advantage, and so he can identify some of the strategic options available to him.

(b) Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organization endeavours to achieve. It is a statement that provides a perspective. Strategic intent gives an idea of what the organization desires to attain in future. Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.

Elements of strategic management are as follows:

(i) **Vision:** Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organisation's aspirations and provides a glimpse of what the organization would like to become in future. Every sub system of the organization is required to follow its vision.

(ii) **Mission:** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.

(iii) **Business Definition:** It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices.

(iv) **Business Model:** Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details. Rival firms, operating in the same industry rely on the different business model due to their strategic choice.

(v) **Goals and Objectives:** These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan. However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

Question 10

Topic Deleted for new syllabus (May24)

(a) *The growth rate of A & B Ltd. growth rate was around 10% per annum during the last decade. But thereafter its growth rate started falling and presently the growth rate of the company is very low around 1%. The company is facing twin problems, one the strategy is not implemented as planned; and two the results produced by the strategy are not in conformity with intended goals.*

You being a strategy consultant, advise the tool for audit of management performance. Also explain the need of such tool and its basic activities. ***(1 + 2 + 2 = 5 Marks)***

(b) *"A well designed strategic management system can fail if insufficient attention is given to the human resource dimension." ·Elucidate this statement.* ***(5 Marks)***

OR

Write short note on Strategic Business Unit (SBU).

Answer

(a) A & B Ltd. reviews its business plans and strategies on regular basis to identify weaknesses and shortcomings to enable a successful development plan. A strategy audit is an examination and evaluation of areas affected by the operation of a strategic management process within an organization. The audit of management performance with regard to its strategies helps an organization identify problem areas and correct the strategic approaches that have not been effective.

Strategy audit is needed under the following conditions:

- When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- When the goals and objectives of the strategy are not being accomplished.
- When a major change takes place in the external environment of the organization.
- When the top management plans:
  - (a) To fine-tune the existing strategies and introduce new strategies; and
  - (b) To ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.

  Adequate and timely feedback is the cornerstone of effective strategy audit. Strategy audit can be no better than the information on which it is based.

Strategy Audit includes three basic activities:

1. Examining the underlying bases of a firm's strategy,
2. Comparing expected results with actual results, and
3. Taking corrective actions to ensure that performance conforms to plans.

(b) A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when a business implements strategies can usually be traced to one of three causes: (1) disruption of social and political structures, (2) failure to match individuals' aptitudes with implementation tasks, and (3) inadequate top management support for implementation activities.

i. Disruption of social and political structures: Strategy implementation poses a threat to many managers and employees in an organization. New power and status relationships are anticipated and realized. New formal and informal groups' values, beliefs, and priorities may be largely unknown. Managers and employees may become engaged in resistance behaviour as their roles, prerogatives, and power in the firm change. Disruption of social and political structures that accompany strategy execution must be anticipated and considered during strategy formulation and managed during strategy implementation.

ii. Failure to match individuals' aptitudes with implementation tasks: A concern in matching managers with strategy is that jobs have specific and relatively static responsibilities, although people are dynamic in their personal development. Commonly used methods that match managers with strategies to be implemented include transferring managers, developing leadership workshops, offering career development activities, promotions, job enlargement, and job enrichment.

It is surprising that so often during strategy formulation; individual values, skills, and abilities needed for successful strategy implementation are not considered. It is rare that a firm selecting new strategies or significantly altering existing strategies possesses the right line and staff personnel in the tight positions for successful strategy implementation. The need to match individual aptitudes with strategy-implementation tasks should be considered in strategy choice.

iii. **Inadequate top management support for implementation activities**: Inadequate support from strategists for implementation activities often undermines organizational success. Chief executive officers, small business owners, and government agency heads must be personally committed to strategy implementation and express this commitment in highly visible ways. Strategists' formal statements about the importance of strategic management must be consistent with actual support and rewards given for activities completed and objectives reached. Otherwise, stress created by inconsistency can cause uncertainty among managers and employees at all levels.

OR

SBU is a part of a large business organization that is treated separately for strategic management purposes. It is separate part of large business serving product markets with readily identifiable competitors. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Very large organizations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units. SBU structure becomes imperative in an organization with increase in number, size and diversity.

The three most important characteristics of a SBU are:

- It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly standalone from the rest of the organization.
- It has its own set of competitors.
- It has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

Benefits of SBUs:

1. Establishing coordination between divisions having common strategic interest.
2. Facilitate strategic management and control.

3. Determine accountability at the level of distinct business units.
4. Allow strategic planning to be done at the most relevant level within the total enterprise.
5. Make the task of strategic review by top executives more objective and more effective.
6. Help to allocate resources to areas with better opportunities.

Thus, an SBU structure with its set of advantages would be most suitable for the company with the given diverse businesses having separate identifiable competitors, but a common organizational goal.

Past Year Questions with suggested answers
May 22

PAPER 7 - SECTION – B: STRATEGIC MANAGEMENT

*Question paper comprises of **5** questions, Answer Question No. **6** which is compulsory and any **3** out of the remaining **4** questions.*

Question 6

Paramount group of companies is having a strong foot print in the areas of Aviation, Healthcare, Fast moving consumer goods, Home appliances and Electronic goods. Processes, Technology and Marketing capabilities are different for each business. However, each business operates among a group of rivals that produce competing products. In order to get ahead of competition and to contribute for sustained competitive advantages, company intends to improve customer services and in turn increase its market share. To achieve this, company is desirous to analyze its products, processes and service levels for each of its segments.

Topic deleted from new syllabus (May24)

Company is studying various trade publications, understanding the taste and preferences of customers, meeting with suppliers and also using other relevant information available in public domain for each of its business operations. After studying as above, company wants to compare diverse range of practices and processes being followed by acknowledged leaders in the industry, measures its own productivity and identify the gaps. Instead of following bricks-and-mortar practices, company will be setting goals to be achieved for improvement in its product, processes and services, based on best practices being followed by the companies on a regular basis.

Identify the strategic tool to be used by Paramount group of companies. Also explain in brief the common elements involved in using this tool. ***(1 + 4 = 5 Marks)***

Answer

Paramount group of companies have used ***Benchmarking*** as a strategic tool. Benchmarking is an approach of setting goals and measuring productivity of firms based on best industry practices or against the products, services and practices of its competitors or other acknowledged leaders in the industry. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking practices to achieve improvements in diverse range of management functions like product development, customer services, human resources management, etc.

Some of the common elements of benchmarking process are as under:

- **Identifying the need for benchmarking**: This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.
- **Clearly understanding existing decisions processes:** The step will involve compiling information and data on performance. This will include mapping processes.
- **Identify best processes:** Within the selected framework best processes are identified. These may be within the same organization or external to it.

- **Comparison of own process and performance with that of others:** Benchmarking process also involves comparison of performance of the organization with performance of other organization. Any deviation between the two is analysed to make further improvements.
- **Prepare a report and implement the steps necessary to close the performance gap:** A report on benchmarking initiatives containing recommendations is prepared. Such a report also contains the action plans for implementation.
- **Evaluation:** Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.

Question 7

(a) Good Health is an Association of Persons (AOP), providing awareness to downtrodden on immunization, vaccination, sanitation and other health and hygiene issues. It is a not-for-profit organization, working in coordination with hospitals, medical support centers and local administration.

You are asked to take over the organization and manage it in a better way. Identify whether the concept of strategic management is relevant in this connection? And if so, what basic activities you would perform in order to manage it efficiently?

(1 + 4 = 5 Marks)

(b) "Is it imperative to segregate top level strategies into viable functional plans and policies?" Do you agree with this statement? Support your answer with reason.

(1 + 4 = 5 Marks)

Answer

(a) The concept of strategic management process is effectively being used by a number of not-for-profit or charitable organizations. While 'Good Health' may have social and charitable existence, still it has to generate resources and use them wisely to achieve organisational objectives. Organisation needs to be managed strategically, irrespective whether they have profit motive. The strategic management at 'Good Health' should essentially cover:

- ♦ Analyzing and interpreting the strategic intent in terms of vision, mission and objectives.
- ♦ Generating required resources in terms of finance and manpower (volunteers, paid employees).
- ♦ Undertaking SWOT analysis from time to time.

- Setting goals in the area of downtrodden. It can be in terms of geographical coverage and number of downtrodden.
- Analyzing the desired future position with the past and present situation.

(b) Yes, it is imperative to segregate the top-level strategies into viable functional plans and policies that are compatible with each other. Major strategies must be translated to lower levels to give holistic strategic direction to an organisation. Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. The reasons why functional strategies are needed can be enumerated as follows:

- Functional strategies lay down clearly what is to be done at the functional level. They provide a sense of direction to the functional staff.
- They are aimed at facilitating the implementation of corporate strategies and the business strategies formulation at the business level.
- They act as basis for controlling activities in the different functional areas of business.
- They help in bringing harmony and coordination as they are formulated to achieve major strategies.
- These strategies help the functional managers in handling similar situations occurring in different functional areas in a consistent manner.

Question 8

(a) XYZ Ltd. is an automobile company that offers diversified products for all customer segments. Due to COVID-19, the changes took place in the economy forced the company to change its strategy. Being the CEO of the company, what stages will you follow for developing and executing the new strategy? ***(5 Marks)***

(b) Due to reoccurrence of various variants of Corona virus, LMN Ltd. is facing unstable environment and it has started unbundling and disintegrating its activities. It also started relying on outside vendors for performing these activities. Identify the organisation structure LMN Ltd. is shifting to. Under what circumstances this structure becomes useful? ***(1 + 4 = 5 Marks)***

Answer

(a) Today, India has become the outsourcing hub for many of the global automobile manufacturers. The auto industry comprises of four segments which are passenger vehicles, commercial vehicles, three wheelers and two wheelers. XYZ Ltd. is an automobile company that offers diversified products for all customer segments. The company has already in existence, so it has its own vision, mission and a strategy to execute for achieving its vision. While developing and executing the strategy, XYZ Ltd. might have followed the five-stage managerial process as given below:

1. Developing a strategic vision.
2. Environmental and organisational analysis.
3. Formulation of strategy.
4. Implementing and executing the strategy.
5. Strategic evaluation and control.

But due to COVID-19, the automobile industry has faced the lockdown situation. Changes in the economy forced the XYZ Ltd. to change its existing strategy and prepare the new strategy. The changes in the environmental forces due to COVID-19 requires XYZ Ltd. to make modifications in their existing strategies and bring out new strategies. For initiating strategic change, three steps can be followed by the CEO of the company which are as under:

(i) ***Recognize the need for change***: This is the first step to diagnose facets of the corporate culture that are strategy supportive or not. This has already identified by the XYZ Ltd.

(ii) ***Create a shared vision to manage change***: Objectives and vision of both individuals and organization should coincide. The CEO of XYZ Ltd. need to constantly and consistently communicate the vision not only to inform but also to overcome resistance.

(iii) ***Institutionalize the change***: Creating and sustaining a different attitude towards change is essential to ensure that the XYZ Ltd. does not slip back into old ways of thinking or doing things. All these changes should be set up as a practice to be followed by the company and be able to transfer from one level to another as a well settled practice.

(b) LMN Ltd. is shifting into ***network structure.*** It is a newer and somewhat more radical organisational design. The network structure could be termed a "non-structure" as it virtually eliminates in-house business functions and outsource many of them. An organization organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.

The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration. The network structure provides organization with increased flexibility and adaptability to cope with rapid technological change and shifting pattern of international trade and competition.

Question 9

(a) *"Strategy formulation and strategy implementation are intertwined and linked with each other." Elucidate this statement with suitable arguments.* ***(5 Marks)***

(b) *There are four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are known as core competencies. Explain.* ***(5 Marks)***

Answer

(a) The strategy formulation and strategy implementation are intertwined and linked with each other. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of strategy formulation on strategy implementation while the backward linkages are concerned with the impact in the opposite direction.

Forward Linkages: The different elements in strategy formulation starting with objective setting through environmental and organizational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organization adopts for itself. With the formulation of new strategies, or reformulation of existing strategies, many changes have to be affected within the organization. For instance, the organizational structure has to undergo a change in the light of the requirements of the modified or new strategy. The style of leadership has to be adapted to the needs of the modified or new strategies. In this way, the formulation of strategies has forward linkages with their implementation.

Backward Linkages: Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy. Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making.

(b) Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

i. **Valuable:** Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.

ii. **Rare:** Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

iii. **Costly to imitate:** Costly to imitate means such capabilities that competing firms are unable to develop easily.

iv. **Non-substitutable:** Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

Question 10

(a) ABC Steel Industries finds out that its products have reached at maturity stage and already has overcapacity. Therefore, it concentrates on maintaining operational efficiency of its plants. Identity the strategy implemented by ABC Steel Industries along with reasons. ***(1 + 4 = 5 Marks)***

(b) What do you understand by diversification? Distinguish between concentric and conglomerate diversification. ***(2 + 3 = 5 Marks)***

OR

"The bargaining power of suppliers determines an industry's attractiveness and profitability." Discuss.

Answer

(a) ABC Steel Industries has opted to implement Stability strategy. Stability strategies are intended to safeguard the existing interests and strengths of business. It involves organisations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on. A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in same products and services. In stability strategy, few functional changes are made in the products or markets, however, it is not a 'do nothing' strategy. This strategy is typical for mature business organizations. Some small organizations also frequently use stability as a strategic focus to maintain comfortable market or profit position.

Major reasons for Stability strategy are:

- A product has reached the maturity stage of the product life cycle.
- The staff feels comfortable with the status quo as it involves less changes and less risks.

- It is opted when the environment in which an organisation is operating is relatively stable.
- Where it is not advisable to expand as it may be perceived as threatening.
- After rapid expansion, a firm might want to stabilize and consolidate itself.

(b) Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. Diversification endeavours can be related or unrelated to existing businesses of the firm.

Following are the differences between the concentric diversification and conglomerate diversifications**:**

Concentric Diversification	Conglomerate Diversification
Meaning: It occurs when a firm adds related products or markets.	**Meaning:** It occurs when a firm diversifies into areas that are unrelated to its current line of business.
Linkage: The new business is linked to the existing businesses through process, technology or marketing.	**Linkage:** Here no such linkages exist; the new business/product is disjointed from the existing businesses/products.
Reasons for pursuing: The most common reason for pursuing a concentric diversification is that opportunities in a firm's existing line of business are available.	**Reasons for pursuing:** The common reason for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

or

Quite often, suppliers too, exercise considerable bargaining power over purchasing companies. The more specialised the offering from the supplier, greater may be its clout. Further, when the suppliers are limited in number, they may openly exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry, and therefore, an industry's attractiveness and profitability. Suppliers can influence the profitability of an industry in a number of ways. Suppliers can command bargaining power over a firm when;

(i) Their products are crucial to the buyer and substitutes are not available.

(ii) They can erect/ensure high switching costs.

(iii) They are more concentrated than their buyers. Less suppliers, more buyers.

Past Year Questions with Suggested Answers Dec'21

INTERMEDIATE (NEW) EXAMINATION: DECEMBER, 2021

SECTION –B: STRATEGIC MANAGEMENT

*Question No. **6** is compulsory*

*Answer any **three** questions from the rest.*

Question 6

Inspite of high commodity inflation, shortage of components and the threat of third wave of COVID-19 pandemic in India, manufacturers of packaged goods, home appliances and consumer electronics are expecting the business to grow by 12 to 25 percent in the coming months. After one-and-a-half years of disruption, manufacturers are now confident about managing their inventories better, keeping their supply channels well-stocked and preparing themselves to minimalize the impact of any COVID related restrictions even as they gear up for the festive season, which usually accounts for 25 to 35 percent of their yearly sales.

The home appliances sector could be an example. After a dismal April-June quarter in the year 221; producers of air conditioners, refrigerators and washing machines are expecting their business to grow by 15-20 percent in the months to come. All the companies operating in the sector have geared up to grab the opportunities available in the market.

A leading company in the home appliances domain, XXP India, is planning to launch various innovative product designs and offer loyalty programmes to lure consumers.

With reference to Michael Porter's generic strategies, identify which strategy XXP India has planner for? Explain how this strategy will be advantageous to the company to remain profitable? ***(5 Marks)***

Answer

According to Michael Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.

XXP India Ltd. has planned for Differentiation Strategy. The company is planning to launch various innovative product designs and offer loyalty programmes to lure customers.

Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty, because consumers may become strongly attached to the differentiated features.

Advantages of Differentiation Strategy

A differentiation strategy may help an organisation to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.

2. Buyers – They do not negotiate for price as they get special features, and they have fewer options in the market.
3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.
4. Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
5. Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Question 7

(a) A Chennai based fast moving consumer goods (FMCG) major CDE Ltd. recently announced restructuring its business. The company indicated that the business would be split into mainly four different streams-FMCG, E-commerce, Retail, and Research & Development. The company management has decided that these four units will operate as separate businesses. The top corporate officer shall delegate responsibility for day-to-day operations and business unit strategy to the concerned managers.

Identify the organization structure that CDE Ltd. has planned to implement. Discuss any four attributes and the benefits the firm may derive by using this organization structure.

(5 Marks)

(b) What are the important aspects of the process of implementation of strategy? ***(5 Marks)***

Answer

(a) CDE Ltd. has planned to implement Strategic Business Unit (SBU) structure. Very large organisations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units. SBU structure becomes imperative in an organisation with increase in number, size and diversity.

The attributes of an SBU and the benefits a firm may derive by using the SBU Structure are as follows:

- A scientific method of grouping the businesses of a multi – business corporation which helps the firm in strategic planning.
- An improvement over the territorial grouping of businesses and strategic planning based on territorial units.
- Strategic planning for SBU is distinct from rest of businesses. Products/ businesses within an SBU receive same strategic planning treatment and priorities.
- Each SBU will have its own distinct set of competitors and its own distinct strategy.

- The CEO of SBU will be responsible for strategic planning for SBU and its profit performance.
- Products/businesses that are related from the stand point of function are assembled together as a distinct SBU.
- Unrelated products/ businesses in any group are separated into separate SBUs.
- Grouping the businesses on SBU lines helps in strategic planning by removing the vagueness and confusion.
- Each SBU is a separate business and will be distinct from one another on the basis of mission, objectives etc.

(b) Implementation and execution are an operations-oriented activity aimed at shaping the performance of core business activities in a strategy-supportive manner. To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company's competencies and competitive capabilities, create a strategy-supportive work culture, and meet or beat performance targets. Good strategy execution involves creating strong "fits" between strategy and organizational capabilities, structure, climate & culture.

In most situations, strategy-execution process includes the following principal aspects:

1. **Developing budgets** that steer ample resources into those activities critical to strategic success.
2. **Staffing the organization with the needed skills and expertise**, consciously building and strengthening strategy-supportive competencies and competitive capabilities and organizing the work effort.
3. **Ensuring that policies and operating procedures facilitate rather than impede** effective execution.
4. **Using the best-known practices** to perform core business activities and pushing for continuous improvement.
5. **Installing information and operating systems** that enable company personnel to better carry out their strategic roles day in and day out.
6. **Motivating people** to pursue the target objectives energetically.
7. **Creating a company culture and work climate conducive** to successful strategy implementation and execution.

Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

Question 8

(a) *STU's association with India goes back to 1967, when it played a key role in constructing a very long highway in India spreading over multiple states. Since then, it is contributing in many ways to the country's growth story. Now it is looking at playing an active role in the key projects taken up by the central government. Suggest few Opportunities and Threats that the company should consider.* ***(5 Marks)***

(b) *"There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive". Discuss.* ***(5 Marks)***

Answer

(a) Faced with a constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat. The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e., an organization's SWOT analysis.

STU is looking at playing an active role in the key projects taken up by the central government. Following are the potential opportunities and threats to STU:

Potential STU's Opportunities:

- Alliances or joint ventures with central government that expand the STU's market coverage or boost its competitive capability.
- Possibilities of working on the future projects of central government.
- Serving additional customer groups or expanding into new geographic markets.
- Utilizing existing company skills or technological know-how to enter new projects.
- Openings to take market share away from rivals.
- Openings to exploit emerging new technologies.
- Integrating forward or backward.

Potential STU's Threats:

- Due to COVID-19 pandemic, companies can have face the lockdown situation.
- Economic factors such as recession etc.
- Likely entry of potent new competitors.

- Technological changes/innovations in construction equipment.
- Costly new regulatory requirements.
- Growing bargaining power of suppliers.
- Vulnerability to industry driving forces.

(b) Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth.

Conditions for turnaround strategies: When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment, they have to identify danger signals as early as possible and undertake rectification steps immediately. These are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are:

- Persistent negative cash flow from business.
- Uncompetitive products or services.
- Declining market share.
- Deterioration in physical facilities.
- Over-staffing, high turnover of employees, and low morale.
- Mismanagement.

Question 9

(a) *"Business organizations face countless marketing challenges that affect the success or failure of strategy implementation". In light of this statement, discuss some marketing decisions that require special attention.* ***(5 Marks)***

(b) *GWA, a leading Japan based automobile company decides to make India a hub for the company's 250 cc motorcycle to be manufactured in collaboration with the TPR Group, a leading Indian motorcycle manufacturer. The production is to be exported to the company's home market as well as to other African countries.*

What is this growth strategy called? Point out the most important advantages both the companies expect from such strategy/collaboration. ***(5 Marks)***

Answer

(a) A business organization faces countless marketing challenges that affect the success or failure of strategy implementation. Some examples of marketing decisions that may require special attention are as follows:

1. The amount and the extent of advertising to be done. Whether to use heavy or light advertising. What should be the amount of advertising in print media, television or internet?
2. Decisions regarding distribution network to be used. Whether to use exclusive dealerships or multiple channels of distribution.
3. Whether to be a price leader or a price follower?
4. Whether to offer a complete or limited warranty?
5. Whether to limit or enhance the share of business done with a single or a few customers?
6. Whether to reward sales people based on straight salary, straight commission, or on a combination of salary and commission?

(b) **GWA of Japan and TRP group of India opted for strategic alliance as their growth strategy.** A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. Strategic alliances are often formed in the global marketplace between businesses that are based in different regions of the world.

Advantages of Strategic Alliance

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows:

1. **Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Having a strategic partner who is well-known and respected also helps add legitimacy and creditability to a new venture.
2. **Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.

3. **Strategic:** Rivals can join together to cooperate instead of competing with each other. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.

4. **Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically influential partners may also help improve your own influence and position.

Question 10

(a) "Each organization must build its competitive advantage keeping in mind the business warfare. This can be done by following the process of strategic management." Considering this statement, explain major benefits of strategic management. ***(5 Marks)***

(b) Why is strategy evaluation more difficult? Give reasons. ***(5 Marks)***

OR

What are the factors which determine the nature of rivalry in an industry? ***(5 Marks)***

Answer

(a) Each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following the process of strategic management. Strategic Management is very important for the survival and growth of business organizations in dynamic business environment. Other major benefits of strategic management are as follows:

- Strategic management helps organizations to be more proactive rather than reactive in dealing with its future. It facilitates to work within vagaries of environment and remains adaptable with the turbulence or uncertain future. Therefore, they are able to control their own destiny in a better way.
- It provides better guidance to entire organization on the crucial point – what it is trying to do. Also provides frameworks for all major business decisions of an enterprise such as on businesses, products, markets, organizational structures, etc.
- It facilitates to prepare the organization to face the future and act as pathfinder to various business opportunities. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.
- It serves as a corporate defence mechanism against mistakes and pitfalls. It helps organizations to avoid costly mistakes in product market choices or investments.

- Over a period of time strategic management helps organization to evolve certain core competencies and competitive advantages that assist in the fight for survival and growth.

(b) Strategic evaluation involves measuring and evaluating performance. The goals achieved are compared with the desired goals to identify deviations and make necessary adjustments in strategies or in the efforts being put to achieve those strategies.

Reasons why strategy evaluation is more difficult today include the following trends:

- A dramatic increase in the environment's complexity.
- The increasing difficulty of predicting the future with accuracy.
- The increasing number of variables in the environment.
- The rapid rate of obsolescence of even the best plans.
- The increase in the number of both domestic and world events affecting organizations.
- The decreasing time span for which planning can be done with any degree of certainty.

OR

The intensity of rivalry in an industry is a significant determinant of an industry's attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus, can directly affect the profitability. "The more intensive the rivalry, the less attractive is the industry". Rivalry among competitors tends to be cutthroat and an industry's profitability is low when;

(i) An industry has no clear leader. Therefore, continuous war for leadership.

(ii) Competitors in the industry are numerous.

(iii) Competitors operate with high fixed costs. Thus, aiming for better Return on Investment with more fierce tactics.

(iv) Competitors face high exit barriers, and therefore, continue to fight for market share.

(v) Competitors have little opportunity to differentiate their offerings.

(vi) The industry faces slow or diminished growth.