

CHAPTER 1

INTRODUCTION TO STRATEGIC MANAGEMENT

*Strategic Planning is Your Road Map
from Struggle to Success*

Coverage

- 1) ICAI Study Material Questions & Solutions (100%)
- 2) RTPs & MTPs till Nov 23 (100%)
- 3) Past Year Questions till May 23 (100%)

1. ICAI STUDY MATERIAL QUESTIONS

Scenario Based Questions

Concept Problem I

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's 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.

Concept Problem 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? [MTP May 23]

Answer

Yummy foods is proactive in its approach. On the other hand, Tasty Food is reactive. Proactive strategy is planned strategy whereas reactive strategy is 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 organizational resources permit, it is better to be proactive rather than reactive. Being proactive in aspects such as introducing new products will give you 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.

Concept Problem 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 customized manner. Such customized 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 visualize how online stores will be moving strategically.*

Concept Problem 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 customer 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 involve 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 Cyclix Corporate management is not right. They should involve Dharam Singh, as well as other functional managers too in strategic management.

Concept Problem 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. [MTP Nov 23]

Or

Mr. Mehta sharing with his friend in an informal discussion that he has to move very cautiously in his organization as the decisions taken by him has organisation wide impact and involves large commitments of resources. He also said that his decisions decide the future of his organisation. Where will you place Mr. Mehta in the organizational hierarchy and explain his role in the organization

Or

In your view, what is the role of corporate level managers in strategic management?

Or

ABC Ltd. currently sells its product in two major markets – Europe and Asia. While it is a market leader in Europe, ABC Ltd. has struggled to penetrate the more competitive Asian market. ABC Ltd. hired a strategic consultant to analyse the situation and submit his report to them. After the report received from the strategic consultant, it has therefore decided to pull out of Asia entirely and focus on its European markets only. This decision relates to which level in ABC Ltd. and explain the role of managers at this level in the organization. [RTP May 22] [MTP Nov 22]

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 organization.

The role of Chief Executive Officer is to:

- i) Oversee the development of strategies for the whole organization
- ii) Defining the mission and goals of the organization
- iii) Determining what business, it should be in
- iv) Allocating resources among the different businesses
- v) Formulating and implementing strategies that span individual businesses
- vi) Providing leadership for the organization
- vii) ensuring that the corporate and business level strategies which company pursues are consistent with maximizing shareholders wealth; and
- viii) managing the divestment and acquisition process.

Descriptive Questions

Concept Problem 6

What is Strategic Management? What benefits accrue by following a strategic approach to managing? [RTP May 23]

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, & initiating corrective adjustments, where deemed appropriate.

The overall objective of strategic management is two-fold:

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

The following are the benefits of strategic approach to managing:

- i) Strategic management helps organizations to be more proactive instead of reactive in shaping its future. Organizations 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.
- ii) Strategic management provides framework for all the major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organizational structure. It provides better guidance to entire organization on the crucial point - what it is trying to do.
- iii) 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. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.
- iv) Strategic management 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 its fight for survival and growth.

Concept Problem 7

Are there any limitations attached to strategic management in organizations? Discuss. [MTP Nov 22]

Or

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.

Or

The presence of strategic management cannot counter all hindrances and always achieve success for an organization. What are the limitations attached to strategic management? [MTP May 22] [MTP Nov 22] [ICAI Nov 22] [RTP Nov 23] [MTP Nov 23]

Answer

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:

- a) **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 organizational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organization has to deal with suppliers, customers, governments and other external factors.
- b) **Strategic Management is a time-consuming process.** Organizations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- c) **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 organizations with limited resources particularly when small and medium organization create strategies to compete.
- d) **Competition is unpredictable.** In a competitive scenario, where all organizations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

Concept Problem 8

Explain the difference between three levels of strategy formulation. [MTP May 23]

Or

“Management at all levels develop strategies” Explain the different strategies formulated at different levels of management. [ICAI May 23]

Answer

A typical large organization is a multidivisional organization 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 organization, 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 organizational activity, whereas general managers oversee the operation of a whole company or division.

Concept Problem 9

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

Or

"A business organization cannot always plan all their strategies in advance and often need to blend planned strategies with reactive strategies." Do you agree with statement? Give reasons. [MTP May 22] [RTP May 23]

Answer

A business organization cannot always plan all their strategies in advance and often need to blend planned strategies with reactive strategies.

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.

2. ICAI RTPs, MTPs AND PAST YEAR QUESTIONS**Concept Problem 10**

Kamal Sweets Corner, a very popular sweets shop in Ranchi, was facing tough competition from branded stores of packaged sweets and imported goods. The owners realised that their business reduced by 50% in the last six months, and this created a stressful business environment for them. To find a solution, they consulted a business consultant in practice to help them develop a strategy to fight competition and sustain their century old family business. The business consultant advised them to innovate a new snack for the public and market it as a traditional snack of the region. The owners liked the idea and developed a new snack called Dahi Samosa, which very quickly became popular amongst the public and it helped regain the lost business of Kamal Sweets Corner.

One of the very crucial importance of strategic management was used by the business consultant to help the owners of Kamal Sweets Corner. Which one could it be? Also, was this strategy Reactive or Proactive? According to you which is more beneficial in general parlance?

Answer

The strategy used here was of developing a competitive advantage via product which helped Kamal Sweets Corner regain their lost business. This is also one of the major importance cum advantage of Strategic Management, that is helps to develop core competencies and competitive advantages to overcome competition.

This strategy was a Reactive Strategy. Wherein, the owners saw their business fall to 50% of revenue and then seeking a strategic advisory. They did not plan proactively as to when the new shops were already opening. They reacted only when the business started to lose up.

Generally, it is always beneficial to develop strategies proactively, so that the dip in businesses is small and manageable, and even if they are huge, the management has ample time to fix it.

Concept Problem II

State with reason which of the following statements is correct / incorrect:

- i) Strategy is a substitute for sound, alert and responsible management
- ii) Strategies are perfect, flawless and optimal organizational plans
- iii) Strategic management is a bundle of tricks and magic
- iv) A company's strategy has always to be proactive in nature
- v) Every strategic move is the result of proactive planning.
- vi) Strategic management involves huge cost.

Answer

i) **Incorrect:**

strategy is not a substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. Strategies are goal-directed decision and actions in which capabilities and resources are matched with the opportunities and threats in the environment. A good management at the top can steer the organizations by adjusting its path on the basis of the changes in the environment.

ii) **Incorrect:**

Strategy can never be perfect, flawless and optimal. It is the very nature of strategy that it is flexible and pragmatic, it is art of the possible; it does not preclude second- best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated external events

iii) **Incorrect:**

No, Strategic management is not a bundle of tricks and magic. It is a deliberate managerial process that involves systematic and analytical thinking. It involves systematic and analytical thinking and action. Although, the success or failure of a strategy is dependent on several extraneous factors, it cannot be stated that a strategy is a trick or magic. Formation of strategy requires careful planning and requires strong conceptual, analytical, and visionary skills.

iv) **Incorrect:**

A company's strategy is a blend of proactive actions and reactive actions by the management. Reactive actions are required to address unanticipated developments and environmental conditions. Thus, not every strategic move is the result of proactive and deliberate management actions. At times, some kind of strategic reaction or adjustments are required.

v) **Incorrect:**

In business, things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required.

vi) **Correct:**

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 them. These can be really costly for organizations with limited resources particularly when small and medium organisation create strategies

Concept Problem 12

You are appointed as a Strategic Manager by XYZ co. Ltd. Being a Strategic Manager what should be your tasks to perform?

Answer

The primary tasks of the strategic manager are conceptualizing, designing and executing company strategies.

For this purpose, his tasks will include:

- a) Defining the missions and goals of the organizations
- b) Determining what businesses, it should be in.
- c) Allocating resources among the different business
- d) Formulating strategies
- e) Implementing strategies
- f) Providing leadership for the organization

Concept Problem 13

Organizations sustain superior performance over a long period of time, inspite of the rapid, changes taking place continually in its competitive environment if they implement strategic management successfully. Discuss.

Or

“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. [ICAI Dec 21]

Answer

Business organizations function with dynamic environment, the environment may vary from being conducive to hostile. Whatever be the conditions, implementation of strategic management is very important for the survival and growth of business organizations. Strategy implementation helps in improving the competence with which it is executed and helps organizations to sustain superior performance in following manner:

- i) Strategic management helps organizations to be more proactive rather than reactive.
- ii) It provides better guidance to entire organizations on the crucial point-what it is trying to do
- iii) It facilitates to prepare the organizations to face the future
- iv) Organizations are able to identify the available opportunities and identify ways and means as how to reach them
- v) It serves as a corporate defense mechanism against mistakes and pitfalls
- vi) Over a period of time strategic management helps organization to evolve certain core competencies and competitive advantages

Concept Problem 14

'ALBELA' Foods and 'JustBE' Foods are successfully competing chain of restaurants in India. ALBELA' s are known for their innovative approach, which has resulted in good revenues. On the other hand, JustBE is slow in responding to environmental change. The initial stages of Covid-19 pandemic and the ensuing strict

lockdown had an adverse impact on both the companies. Realizing its severity and future consequences ALBELA Foods immediately chalked out its post lockdown strategies, which include initiatives like:

- a) Contactless dining
- b) New category of foods in the menu for boosting immunity
- c) Improving safety measures and hygiene standards
- d) Introducing online food delivery app

Seeing the positive buzz around these measures taken by ALBELA Food, JustBE Foods also thinks to introduce these measures.

- i) Identify the strategic approach taken by 'ALBELA' Foods and 'JustBE' Foods.
- ii) Discuss these strategic approach.
- iii) Which strategic approach is better and why?

Answer

- i) 'ALBELA' foods is proactive in its approach. On the other hand, 'JustBE' foods is reactive in its approach.
- ii) Proactive strategy is planned strategy. While continuing with the previously initiated business approaches that are working well, the newly launched managerial initiatives aim to strengthen the company's overall position and performance. These are outcomes of management's analysis and strategic thinking about the company's situation and its conclusions about the positioning of the company in the marketplace. If done well, it helps the company to effectively compete for buyer patronage.

Reactive strategy is an adaptive reaction to changing circumstances. It is not always possible for a company to fully anticipate or plan for changes in the market. There is also a need to adapt strategy as new learnings emerge about which pieces of strategy are working well and which aren't. By itself also, the management may hit upon new ideas for improving the current strategy.
- iii) In reference to the given case, proactive strategy seems to be better because ALBELA foods had been able to utilise available opportunities, reduce adverse impact, enhance the demand for product and is also able to avail the first mover advantage.

Concept Problem 15

What are 'objectives'? What characteristics it must possess to be meaningful? [RTP May 22] [MTP May 23]

Answer

Objectives are organizations performance targets – the results and outcomes it wants to achieve. They function as yardstick for tracking an organization's performance and progress.

Objectives with strategic focus relate to outcomes that strengthen an organization's overall business position and competitive vitality. Objectives, to be meaningful to serve the intended role, must possess the following characteristics:

- i) Objectives should define the organization's relationship with its environment
- ii) Objectives should be facilitative towards achievement of mission and purpose.
- iii) Objectives should provide the basis for strategic decision-making.
- iv) Objectives should provide standards for performance appraisal.
- v) Objectives should be understandable.
- vi) Objectives should be concrete and specific.

- vii) Objectives should be related to a time frame.
- viii) Objectives should be measurable and controllable.
- ix) Objectives should be challenging.
- x) Different objectives should correlate with each other.
- xi) Objectives should be set within constraints.

Concept Problem 16

What is strategic vision? Describe the essentials of strategic vision.

Answer

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

Essentials of a strategic vision

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

Concept Problem 17

What tips can you offer to write a 'right' mission statements?

Or

What should be the major components of a good mission statement? [RTP Nov 22]

Answer

Mission statements broadly describe an organization's present capability, customer focus, activities, and business makeup. Following points are useful while writing mission of a company

- i) Good mission statements are highly personalized – unique to the organization for which they are developed.
- ii) One of the roles of a mission statement is to give the organization its own special identity, business emphasis and path for development.
- iii) A company's business is defined by what needs it is trying to satisfy, customer groups it is targeting, technologies and competencies it uses and the activities it performs.
- iv) Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- v) The mission should not be to make profit.

Concept Problem 18

Define strategic intent. Briefly explain the elements of strategic intent.

or

"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. [ICAI Nov 22]

Answer

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 Intent are as follows:

- i) **Vision:** Vision implies the blueprint of the company's future position. It describes where the organization wants to land. It depicts the organization'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. It is designed to help potential shareholders and investors understand the purpose of the company. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and business makeup.
- iii) **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, over the particular period. However, in practice no distinction is made between goals and objectives and both terms are used interchangeably.

Concept Problem 19

'Objectives' and 'Goals' provide meaning and sense of direction to organizational endeavour. Explain

Answer

Business organization translates their vision and mission into goals and objectives.

Goals are open-ended attributes that denote the future states or outcomes.

Objectives are close-ended attributes which are precise and expressed in specific terms. Thus, Objectives are more specific and translate to objectives to short term perspective.

All organizations have objectives. The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavour. Organizational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

Concept Problem 20

Explain briefly the key areas in which the strategic planner should concentrate his mind to achieve desired results. [MTP May 22, RTP Nov 22]

Answer

A strategic manager defines the strategic intent of the organisation and take it on the path of achieving the organizational objectives. There can be a number of areas that a strategic manager should concentrate on to achieve desired results. They commonly establish long-term objectives in seven areas as follows:

- i) Profitability.
- ii) Productivity.
- iii) Competitive Position.
- iv) Employee Development.
- v) Employee Relations.
- vi) Technological Leadership.
- vii) Public Responsibility.

Concept Problem 21

Mission statement of a company focuses on the question: 'who we are' and 'what we do'. Explain briefly. [RTP May 23]

Answer

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 organization's present capabilities, customer 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. It helps organisation to set its own special identity, business emphasis and path for development. Mission amplifies what brings the organisation to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business organisation.

In other words, the mission serves as a justification for the firm's very presence and existence; it legitimizes the firm's presence.

Concept Problem 22

Falguni, CFO of Warships Advertisement Agency, stated that strategic management helps the organisation to develop certain core competencies and competitive advantages that facilitate management in the turbulent environment. Do you agree, if yes, then what and how does it facilitate in? [RTP Nov 23]

Answer

Yes, strategic management plays a crucial role in an organization's survival and growth, particularly in a turbulent environment. It provides the framework for developing and leveraging core competencies and competitive advantages that enable the organization to not only withstand challenges but also seize opportunities for expansion and success.

- a) **Survival:** In a turbulent environment characterized by rapid changes, uncertainties, and challenges, strategic management helps an organization adapt and respond effectively. By developing core competencies and competitive advantages, an organization becomes better equipped to navigate unexpected disruptions and stay relevant in the market.
- b) **Growth:** Strategic management goes beyond survival. It enables an organization to identify opportunities, innovate, and create value for its customers. By leveraging core competencies and competitive advantages, the organization can capture market share, expand its offerings, and achieve sustained growth.

Concept Problem 23

ABC Pharmaceuticals, a leading pharmaceutical company, is in the process of formulating its strategic intent. The top management of ABC Pharmaceuticals wants to define the company's future direction, objectives, and goals. They aim is to create a vision that sets the organization apart and provides a roadmap for future growth. ABC Pharmaceuticals aspires to enrich the lives of people by producing high-quality pharmaceutical products at competitive prices and wants to become the world's leading pharmaceutical company by 2030." Based on this context, draft a vision and mission statement that could be formulated by the top management of ABC Pharmaceuticals. [MTP Nov 23]

Answer

ABC Pharmaceuticals 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. ABC Pharmaceuticals may have vision "To be the globally recognized leader in pharmaceutical innovation and enriching the lives of people worldwide by providing high-quality, affordable, and accessible pharmaceutical products."*

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.*

ABC Pharmaceuticals may identify mission in the following lines:

- *To improve the well-being of individuals and communities by relentlessly pursuing excellence in pharmaceutical research, development, and manufacturing.*
- *Committed to producing safe, effective, and sustainable medicines that address unmet medical needs and enhance the quality of life for patients.*
- *Through innovation, collaboration, and ethical practices, we aim to make a positive impact on global healthcare and become the trusted partner of healthcare providers and patients alike.*

CHAPTER 2

STRATEGIC ANALYSIS: EXTERNAL ENVIRONMENT

If it's important to you, you'll find a way. If not, you'll find an excuse.

Coverage

- 1) ICAI Study Material Questions & Solutions (100%)
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1. ICAI STUDY MATERIAL QUESTIONS

Scenario Based Questions

Concept Problem 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.

Or

Dinesh Yadav is the owner of a beverage-based private company in Sonapat, Haryana. His unit is producing fruit juices, cold drinks, soda and lime. 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 Dinesh Yadav to understand competitive landscape. [RTP Nov 22]

Answer

Steps to understand the competitive landscape are as follows:

- a. **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.
- b. **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.
- c. **Determine the strengths of the competitors:** What are the strengths 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?
- d. **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.
- e. **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 strengthened by the firm.

Concept Problem 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.

Concept Problem 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.

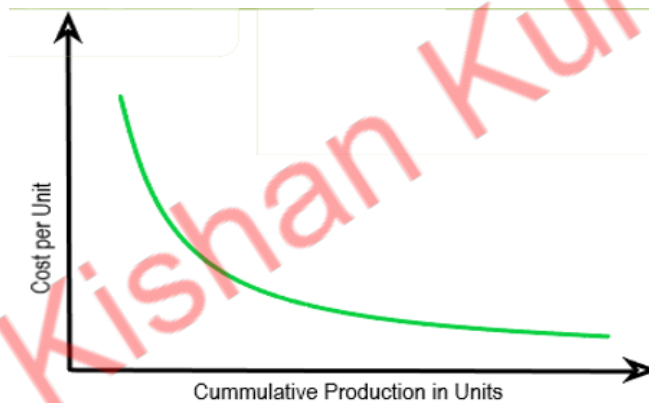
Descriptive Questions

Concept Problem 4

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 follows:



The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organizations, 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.

Concept Problem 5

Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis. [MTP May 22]

Answer

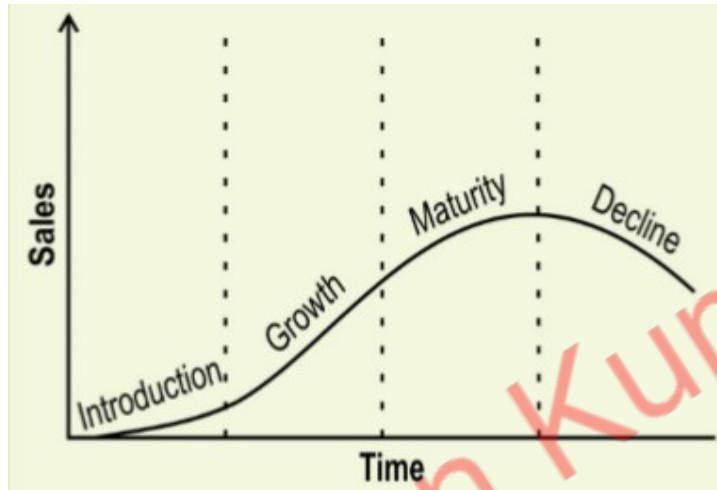
Product Life Cycle is an important concept in strategic choice and S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages.

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 because of lack of knowledge on the part of customers.

The second stage of PLC is the growth stage, in which the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

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. At this stage, organisation may work for maintaining stability.

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. So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.



Product Life Cycle

Significance of PLC

The main advantage of PLC is that it 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.

Concept Problem 6

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:

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

- b) Competitive pressures associated with the threat of new entrants into the market.
- c) Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
- d) Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
- e) Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.

2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

Concept Problem 7

Examine the significance of KSFs (Key Success Factors) for competitive success.

Answer

As industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the market place – the particular strategy elements, product attributes, resources, competencies, competitive capabilities and business outcomes that spell the difference between profit & loss and ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success, or, to put it in another way, KSFs are the rules that shape whether a company will be financially and competitively successful.

Concept Problem 8

Why companies should go global? Mention any five reasons.

Answer

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

- i) 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.
- ii) It is being realized that the domestic markets are no longer adequate and rich. Companies globalize to take advantage of opportunities available elsewhere.
- iii) 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.
- iv) Organizations may go global to take advantage of cheaper raw material and labour costs.
- v) Companies often set up overseas plants to reduce high transportation costs.
- vi) 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.
- vii) The companies may also go global to take advantage of local taxation laws.
- viii) To form strategic alliances to ward off economic and technological threats and leverage their respective comparative and competitive advantages.

Concept Problem 9

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.

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 stabilised. 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.

Concept Problem 10

"Understanding the competitive landscape is important to build upon a competitive advantage". Explain.

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.

An in-depth investigation and analysis of a firm's competition allows it to assess the competitors' strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage.

Steps to understand the competitive landscape for building competitive advantage are: (Refer CP 1)

Concept Problem 11

Explain briefly the primary activities that are grouped into five main activities under Value chain analysis. [MTP May 23]

Answer

The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

- a) **Inbound logistics** are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc.
- b) **Operations** transform these inputs into the final product or service: machining, packaging, assembly, testing, etc.
- c) **Outbound logistics** collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service, if it is a fixed location (e.g., sports events).
- d) **Marketing and sales** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.

- e) **Service** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

Concept Problem 12

The CEO of ABC Enterprises, Mr. Rasik Mehta, had the idea of creating a fitness shake called *Robust*, which prompted the company to conduct research and development. The company conducted a market survey and feasibility study, which indicated that the idea was feasible and had potential for profitability. Consequently, the product was manufactured, marketed, and launched, which led to its success. As a result, the production of *Robust* grew, and it became widely available. However, with time, the demand for the product decreased, leading to its obsolescence. Identify and explain the concept highlighted in the above case? [MTP May 23]

Answer

The case highlights the concept of Product Life Cycle (PLC), which outlines the various stages a product goes through, including introduction, growth, maturity and decline. Successful businesses must adapt their strategies to each stage to remain profitable.

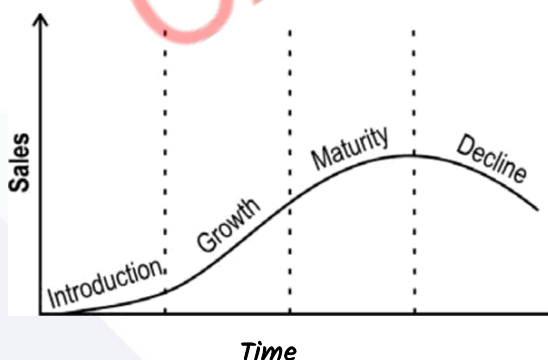
PLC is a useful concept for guiding strategic choice. Essentially, PLC is S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well.

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 at a lower rate because of lack of knowledge on the part of customers.

The second stage of PLC is **growth stage**. In the growth stage, the demand expands rapidly, prices fall, competition increases, and market expands. The customer has knowledge about the product and shows interest in purchasing it.

The third stage of PLC is **maturity stage**. In this stage, the competition gets tough, and market gets stabilised. Profit comes down because of stiff competition. At this stage organisations may work for maintaining stability.

The fourth stage of PLC is **declining stage** in which the sales and profits fall down sharply due to some new product replaces the existing product. So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.



Concept Problem 13

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?

Or

What are the common barriers that are faced by new entrants when an existing firm earns higher profits? [RTP May 23]

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.
- ii) **Economies of Scale:** Many industries are characterized 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.
- iii) **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.
- iv) **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.
- v) **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.
- vi) **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.
- vii) **Possibility of Aggressive Retaliation:** Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

Concept Problem 14

What are the five competitive forces in an industry as identified by Michael Porter? [RTP May 22]

Or

Competitive pressures operate as a composite in five areas of the overall market. Elaborate.

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 overall market.

These five forces are:

- 1) **Threat of new entrants:** New entrants are always a powerful source of competition. 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.
- 2) **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.

- 3) **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.
- 4) **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.
- 5) **Threats from substitutes:** 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. 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.

Concept Problem 15

Which of the following statements are 'correct' and which are 'incorrect'? Give reasons, in brief, for your answer:

- a) Substitutes can also exert significant competitive pressures.
- b) Porter's five sources model considers new entrants as a significant source of competition.

Answer

a) Correct:

According to porter's five forces model, a final force that can influence industry profitability is the availability of substitutes for an industry's product. To predict profit pressure from this source, firms must search for products that perform the same, or nearly the same, function as their existing products.

b) Correct:

Porter's five forces model considers new entrants as major source of competition. The new capacity and product range that the new entrants bring in throw up new competitive pressure. 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.

Concept Problem 16

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

Or

What are the factors that determine the nature of rivalry in an Industry? [ICAI Dec 21]

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

- 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.

Concept Problem 17

Analyse the following cases in the context of Michael Porter's Five Forces Model:

- a) A supplier has a large base of customers.
- b) A manufacturer of sports goods has the advantage of economies of large-scale production
- c) Products offered by competitors are almost similar.

Answer

- a) Large base of customers of an organization (supplier) may increase its bargaining power in comparison to the bargaining power of the customer.
- b) The manufacturer of sports goods would be in better position amongst existing competitors since it has advantage of economies of scale. Even the threat of new entrants gets reduced.
- c) Similar products will reduce the bargaining power of the rivals, i.e., competitors, in other words the bargaining power of the customers will be more.

Concept Problem 18

Easy Access is a marketing services company providing consultancy to a range of business clients. Easy Access and its rivals have managed to persuade the Government to require all marketing services companies to complete a time-consuming and bureaucratic registration process and to comply with an industry code of conduct. Do you think that by doing this Easy Access and its rivals has an advantage in some way to fight off competitors? Explain. [RTP Nov 23]

Answer

Yes, Easy Access and its rivals get advantage by this move. The new bureaucratic process is making it more complicated for organizations to start up and enter in Easy Access market, increasing barriers to entry and thereby reducing the threat of new entrants. New entrants can reduce an industry's profitability, because they add new production capacity, leading to increase in supply of the product, sometimes even at a lower price and can substantially erode existing firm's market share position. However, New entrants are always a powerful source of competition. The new capacity and product range they bring in throws up a new competitive pressure. 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, which is known as Price War.

Concept Problem 19

There are many companies in the market offering COVID vaccine. Analyse the product in terms of threat of new entrants.

Answer

There are three companies offering a vaccine for COVID-19 in India and a fourth company is awaiting approval from authorities.

This product involves **huge capital requirements** and hence not every existing pharma company is likely to get into the competition. However, once approved for use, the entire world is the target market. This would lead to **economies of scale** helping the company to recover the investments made. The **product differentiation** is in terms of the low after effect of the vaccine and the effectiveness of the vaccine in controlling COVID-19. **Brand identity** is becoming very important with people preferring international brands compared to a home – grown company. **Factors like switching cost, access to distribution channels and possibility of aggressive retaliation do not apply at present** because governments across the world are controlling these factors and the vaccine has not entered the phase of free competition.

Concept Problem 20

“The bargaining power of suppliers” determines an industry’s attractiveness and profitability”. Discuss.

Answer

Suppliers 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.

Concept Problem 21

Rajiv Arya is owner of an electrical appliance company that specializes in manufacturing of domestic vacuum cleaners. There are four other manufacturers with similar products and sales volume. Current rival firms also own a number of patents related to the product. The supplier base for procurement of raw material is also very large as there are multiple suppliers.

Identify Porter’s Five Forces that may be classified as significant for the company? Explain. [RTP Nov 22]

Answer

The competitive rivalry will be a significant force in case of company of Rajiv Arya as all the rivals are similar in sizes and are manufacturing similar products. It is difficult for any single manufacturer to dominate the market. Large number of patents will make it difficult for new entrants to break into the market. Further, as there are a large number of small suppliers the power that suppliers can exert will also be low.

There is no information relating to substitutes and bargaining power of customers in the information given in scenario. However, a domestic vacuum cleaner will directly compete with other options such as house maids. Availability of house maids at low cost can significantly disturb the sales of products.

Further, as the products are similar customers can easily shift from one company to another. This will only

enhance competitive rivalry.

The competitive rivalry will be significant in Rajiv Arya's dealing industry as all rivals are similar in sizes and manufacture similar products, making it difficult for anyone manufacturer to dominates the market or gain market share. The large number of patents will make it hard for new entrants to break into the market, while the fact that Rajiv Arya buys from a large number of small suppliers suggests that supplier power is also low. Finally, there is no information relating to substitutes and bargaining power of customers in the information given in scenario.

Concept Problem 22

A startup company is thinking of launching of a low-cost detergent powder in the market. The market of the said product is already dominated by a big FMCG player. You are advised to put forward your suggestions to the management of the company to deal with the problems of 'Entry Barrier' while launching the low-cost detergent powder. [RTP Nov 22]

Answer

There are number of factors that can act as entry barrier for the start-up company. An FMCG, big in size, is already dominating the market space and will act as a strong deterrent for the new start-up. The following will be some suggestions to the management of the start-up to deal with the problem of entry barriers:

- i) The company is working on producing low-cost detergent. Keeping other expenses also on the lower side the management can create price advantage that is competitive to the existing established players including the large FMCG.
- ii) The company focussing on single product in comparison to multiple products of an FMCG can develop competencies to produce and sell the low-cost detergent that are difficult to deploy by the FMCG by its strategy that addresses needs of multiple products.
- iii) The start-up needs to have strong financial strength to sustain the onslaught from the dominant FMCG and other players. The start-up can identify sources of capital well in advance and be able to use it judiciously to their advantage.
- iv) The start-up should identify the customer segments that are likely to switch to the product well in advance so as to target the same and generate the initial hold on the market. Once the product gets some hold and their brands get some identity, the market can be further developed to address other customers.
- v) The start-up should identify the environmental factors that go to their advantage. These may include special scheme of the government to encourage entrepreneurs, tax holiday, low interest rates, advantages available to small and medium sized enterprises alike.
- vi) It has to create an image in the market that its products are qualitative and 'Made in India' to attract a particular segment of customers.
- vii) They need to have a team of experts and dedicated management professionals who can implement strategies formulated by top management.

Concept Problem 23

Pulkit was very confident about cloud kitchen business model, and he bought three real estate spaces in very hideous localities. Later due to government and court orders the cloud kitchens had to be only operated in a well-ventilated space, which made his investment redundant. What aspect of industry competition is Pulkit currently faced as a result of this situation? [MTP May 23]

Answer

Pulkit may be facing exit barriers due to his investment in the real estate spaces. Exit barriers are factors that make it difficult for a company to exit a particular market or industry. In this case, Pulkit's

investment in the real estate spaces may make it difficult for him to exit the cloud kitchen industry or switch to a different business model. If Pulkit is unable to find new spaces or make the necessary renovations, he may be forced to continue operating in the hideous localities, which may impact his brand image and customer experience. This can create an exit barrier for Pulkit as it may be difficult for him to turn to a different business model or exit the industry entirely.

Additionally, Pulkit may have incurred significant sunk costs in the purchase and renovation of the real estate spaces, which can create a further exit barrier. Sunk costs refer to costs that have already been incurred and cannot be recovered. If Pulkit has invested a significant amount of money in the real estate spaces, he may be hesitant to exit the industry or switch to a different business model as it may mean that he has to write off the sunk costs.

Therefore, Pulkit may be facing exit barriers due to his investment in the real estate spaces, which may make it difficult for him to adapt to the new requirements or exit the industry entirely.

Concept Problem 24

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. [ICAI May 23]

Answer

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;

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

Concept Problem 25

A company has recently launched a new product in the market. Initially, it faced slow sales growth, limited markets, and high prices. However, over time, the demand for the product expanded rapidly, prices fell, and competition increased. Identify the stages of the product life cycle (PLC) that the company went through. [RTP Nov 23]

Answer

The company went through the following stages of the product life cycle (PLC):

- Introduction stage:** Initially, the company faced slow sales growth, limited markets, and high prices, which are characteristic of the introduction stage. During this stage, competition is almost negligible, and customers have limited knowledge about the product.
- Growth stage:** Over time, the demand for the product expanded rapidly, prices fell, and competition increased. These are typical features of the growth stage in the PLC. In this stage, the product gains

market acceptance, and customers become more aware of the product's benefits and show interest in purchasing it.

CA Kishan Kumar

CHAPTER 3

STRATEGIC ANALYSIS: INTERNAL ENVIRONMENT

Never let small minds convince you that your dreams are too big.

Coverage

- 1) ICAI Study Material Questions & Solutions (100%)
- 2) RTPs & MTPs till Nov 23 (100%)
- 3) Past Year Questions till May 23 (100%)

1. ICAI STUDY MATERIAL QUESTIONS

Scenario Based Questions

Concept Problem 1

Rohit Sodhi runs a charitable organization for promotion of sports in the country. His organization 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 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 organization's environment which enables it to strengthen its position. On the other hand, a threat is an unfavourable condition in the organization's environment which causes a risk for, or damage to, the organization's position. An opportunity

is also a threat in case internal weaknesses do not allow organization to take their advantage in a manner rivals 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 organization engaged in non-sports events.

Concept Problem 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.

Or

A manufacturing company is in direct competition with fifteen companies at national level. Head of marketing department of this company wishes to study the market position of rival companies by grouping them into like positions. Name the tool that may be used by him/her. Explain the procedure that may be used to implement the techniques.

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:

- a) **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).
- b) **Plot the firms on a two-variable map** using pairs of these differentiating characteristics.
- c) **Assign firms that fall in about the same strategy space** to the same strategic group.
- d) **Draw circles around each strategic group** making the circles proportional to the size of the group's respective share of total industry sales revenues.

Concept Problem 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.

Or

“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. [ICAI May 23]

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:

- i) **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.
- ii) **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.
- iii) **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.
- iv) **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.

Concept Problem 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. These aircrafts are chartered by big business houses and high net worth individuals for their personalized use. With customized tourism packages their aircrafts are also often hired by foreigners.

Identify and explain the Michael Porter’s Generic Strategy followed by Luxury Jet. [RTP Nov 22]

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. Personalized tourism packages can be provided to those who can afford it.

Concept Problem 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 software. 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 organizations 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.

Concept Problem 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 are thereby trying for cost leadership. Cost leadership emphasizes producing standardized 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.

Concept Problem 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 by infant care.

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 infants that is perceived by the customers as unique. Because of differentiation, the Infant care is charging a premium for its product.

Concept Problem 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.

- 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 also, they have fewer options in the market
- 3) **Suppliers:** Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.
- 4) **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
- 5) **Substitutes:** Substitute products can’t replace differentiated products which have high brand value and enjoy customer loyalty.

Concept Problem 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.

Concept Problem 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.

Or

'Speed' 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. The Chief executive 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 retail chain.

Answer

A core competence is a unique strength of an organization 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 organization.

'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.

Concept Problem 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 organization?

Or

Write short note on SWOT analysis. [MTP Nov 23]

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 organization 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 organization's environment which enables it to strengthen its position.
- **Threat:** A threat is an unfavourable condition in the organization's environment which causes a risk for, or damage to, the organization'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 analyses are:

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

2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

Concept Problem 12

- a) Define competitive advantage
- b) What do you mean by core competencies?

Answer

- a) **Competitive advantage** is the position of a firm to maintain and sustain a favourable market position when compared to the competitors. Competitive advantage is ability to offer buyer something different and thereby providing more value for the money it is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry. Competitive advantage may also be in the form of low-cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large
- b) **Core competence** is a unique strength of an organizations 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.

Concept Problem 13

Core competencies provide edge to a business over its competitors. Discuss. Also, briefly state the three areas in which major core competencies are identified.

Answer

A core competence is a unique strength of an organization 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 organization'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:

- i) **Competitor differentiation:** The Company can consider having a core competence if the competence 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.
- ii) **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.

- iii) **Application of competencies to other markets:** Core competence must be applicable to the whole organization; 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 organization's point of view. Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organization to open up potential markets to be exploited.

Concept Problem 14

There are four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are known as core competencies. Explain. [ICAI May 22]

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.
- 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.

Concept Problem 15

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 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. [ICAI Dec 21]

Answer

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:

- i) Alliances or joint ventures with central government that expand the STU's market coverage or boost its competitive capability.
- ii) Possibilities of working on the future projects of central government.

- iii) Serving additional customer groups or expanding into new geographic markets.
- iv) Utilizing existing company skills or technological know-how to enter new projects.
- v) Openings to take market share away from rivals.
- vi) Openings to exploit emerging new technologies.
- vii) Integrating forward or backward.

Potential STU's Threats:

- i) Due to COVID-19 pandemic, companies can have face the lockdown situation.
- ii) Economic factors such as recession etc.
- iii) Likely entry of potent new competitors.
- iv) Technological changes/innovations in construction equipment.
- v) Costly new regulatory requirements.
- vi) Growing bargaining power of suppliers.
- vii) Vulnerability to industry driving forces.

Concept Problem 16

Define 'Marketing'. Distinguish between social marketing & service marketing. [MTP Nov 22] [RTP Nov 23]

Answer

In general, marketing is an activity performed by business organizations. In the present day for business, it is considered to be the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration. The term marketing constitutes different processes, functions, exchanges and activities that create perceived value by satisfying needs of individuals.

Social marketing and service marketing are marketing strategies primarily with different orientations. Social Marketing refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group. For instance, the publicity campaign for prohibition of smoking or encouraging girl child, etc.

Service marketing refers to applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible.

Concept Problem 17

Domolo is a premium cycle and cycling equipments brand which targets high spending customer with a liking for quality and brand name. Their cycles range from rupees fifteen thousand to rupees one lac. The recent trend of fitness through cycling has created humongous demand for cycles and peripherals like helmets, lights, braking systems, fitness applications, etc. The customer base has grown 150% in the last three months. Mr. Vijay, who is an investor wants to tap in this industry and bring about cheaper options to people who cannot spend so much. Which business level strategy would best suit for Mr. Vijay's idea and what are the major sub-strategies that can be implemented to capture maximum market? [RTP May 23]

Answer

The Best Cost Provider strategy would ensure a better reach to the not so affluent customers and provide them with good quality cycles and equipments, thus tap- ping in on the increasing trend of cycling.

Two sub-strategies that can be implemented are:

- 1) Offering lower prices than rivals for the same quality of products

2) Charging same prices for better quality of products

The idea of Mr. Vijay is to provide almost same quality of products in terms of functionality if not so in terms of branding, to customer who do not have huge sums of money to pay. Thus, sub-strategy number one, offering lower prices for almost same quality should be implemented to become the best cost provider of cycles and related equipments in the market.

Concept Problem 18

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.

Answer

According to Porter, strategies allow organizations 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.

Achieving Differentiation Strategy

To achieve differentiation, following strategies are generally adopted by an organization:

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

Concept Problem 19

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 specialize in the same target market. Identify the strategy adopted by Spacetek Pvt. Ltd. and also explain the advantages and disadvantages of that strategy.

Or

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. [ICAI Nov 22]

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 specialize in the same target segment. An organization 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.

Firms that compete based on uniqueness and target a narrow market are following a focused differentiation strategy.

Advantages of Focus Strategy

- a) Premium prices can be charged by the organizations for their product/services.
- b) Due to the tremendous expertise about the goods and services that organizations 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.

Concept Problem 20

Distinguish between Cost Leadership and Differentiation Strategies. [MTP May 22]

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.

Concept Problem 21

Discuss differentiation strategy? How is it achieved? [MTP Nov 22]

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 organization:

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

Concept Problem 22

Write short notes on Advantages of cost leadership strategy

Answer

A cost leadership strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. **Rivalry** – Competitors are likely to avoid a price war, since the low-cost firm will continue to earn profits after competitors compete away their profits
2. **Buyers** – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product
3. **Suppliers** – Cost leaders are able to absorb greater price increases before it must raise price to customers.
4. **Entrants** – Low-cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.
5. **Substitutes** – Low-cost leaders are more likely to lower costs to induce customers to stay with their product, invest to develop substitutes, purchase patents.

Concept Problem 23

'Coffee Beans' is a coffeehouse chain that operates across the globe in different countries. 'Coffee Beans' has adopted a strategy to build business by establishing product uniqueness or qualities and gain competitive advantage based on features of its offerings in coffee business. Which type of strategy 'Coffee Beans' has adopted?

Answer

Coffee Beans is opting for differentiation strategy. 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, Coffee Beans can charge a premium for its product.

Concept Problem 24

Write a short note on the concept of cost leadership strategy and how to achieve it?

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:

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

Concept Problem 25

Explain the meanings of:

- a) Cost leadership strategy
- b) Best-cost provider strategy.

Answer

- a) **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.
- b) **Best-cost provider strategy:** Best-cost provider strategy involves providing customers more value for the money by emphasizing low cost and better-quality difference. It can be done:
 - i) through offering products at lower price than what is being offered by rivals for products with comparable quality and features or
 - ii) charging similar price as by the rivals for products with much higher quality and better features.

Concept Problem 26

X-Olympus is a gaming software company specializing in developing games for ZBox and GameStation- 4. The company is facing stiff competition due to saturation of market and price wars, which has excessively favor and highlight their dependence on gaming console manufacturers. Thereby, the company desires to establish a competitive advantage over industry rivals by enhancing the gaming experience by expanding into Edge-Cloud Gaming Service on a monthly subscription basis. This service offering does not require dedicated gaming consoles yet provide customers game streaming in 4K resolution with an ample range of games to select from. This move is expected to insulate X-Olympus from price wars and provide a competitive advantage. Identify and explain the generic strategies adopted by X-Olympus?

Answer

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

X-Olympus is facing cutthroat competition due to saturation of market and price wars as there is no clear leader out of the numerous competitors. For this, the strategy adopted by X-Olympus is Product Differentiation by introducing a unique product to cater the customer needs at a lesser cost which would insulate it from the fierce competition and never-ending price wars.

CA Kishan Kumar

Concept Problem 27

Explain in brief the various basis of differentiation strategy. [MTP May 23] [RTP Nov 23]

Answer

There are several basis of differentiation, major being: Product, Pricing and Organization.

- a) **Product:** Innovative products that meet customer needs can be an area where a company has an advantage over competitors. However, the pursuit of a new product offering can be costly – research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product.
- b) **Pricing:** It fluctuates based on its supply and demand and may also be influenced by the customer's ideal value for a product. Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices.
- c) **Organisation:** Organizational differentiation is yet another form of differentiation. Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition.

Concept Problem 28

In spite of high commodity inflation, shortage of components and the threat of a third wave COVID-19 pandemic in India, manufactures 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, manufactures are now confident about managing their inventories better, keeping their supply channels well –stocked and preparing themselves to minimize the impact of any COVID related restrictions even as they grew up for the festive season, which usually accounts for 25 to 35 percent of their yearly basis.

The home appliances sector could be an example. After a dismal April – June quarter in the year 2021; producers of air conditioners, refrigerator 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 planned for? Explain how this strategy will be advantageous to the company to remain profitable? [ICAI Dec 21]

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.

Concept Problem 29

A business consultancy firm specializes in environment management consultancy. It advises client companies on how to set up environmental management accounting systems. For measuring recording and analyzing environmental costs. A large part of its business involves performing environmental audits to check whether companies have achieved an international assurance standard in environmental management; this is something that rival consultancy firms do not do. The firm also carries out other management consultancy projects for client, but these make up only a small proportion of its total annual fee income.

Identify the strategy by Michael Porter which best describes the strategy of this firm. [RTP May 22]

Answer

By concentrating mainly on the 'market' for consultancy services in environmental management, the firm is pursuing a focus strategy. By offering audit services, which rival firms do not, this indicates a differentiation strategy within this chosen niche. Hence, the firm is following Focus differentiation strategy.

A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Similar to focused low-cost strategy, narrow markets are defined in different ways in different settings. 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 differentiations strategy.

Concept Problem 30

A private Moneyload Ltd. Bank that targets high worth individuals. They offer a premium service with many additional and personal services not normally available through other banks. They charge a significant annual fee for these services. The company makes full use of information technology throughout its operations in order to minimize costs. Identify and explain the generic strategy adopted by Moneyload Ltd. Bank? [MTP May 22]

Answer

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

Moneyload Ltd. Bank targets a narrow segment of the market, offering unique and desirable products. The bank will want to keep its costs under control, but it will not reduce costs at the expenses of reducing the quality levels of the customer service it offers. By maintaining high quality levels, it will still be able to charge a premium for its services. Thus, the strategy adopted by Moneyload Ltd. Bank is **Focused**

Differentiation.

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 differentiations strategy.

Concept Problem 31

What are the various alternative strategies which the managers need to identify that will create and sustain a competitive advantage in the business? Discuss. [MTP Nov 22]

Answer

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. These bases form different generic strategies as follows:

- a) **Cost leadership** 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.
- b) **Differentiation** is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. It concerns with distinguishing a product/service from that of its competitors through unique design features, technological leadership, unique uses of products and attributes like quality, environmental impact and customer service.
- c) **Focus** means producing products and services that fulfil the specific needs of small groups of consumers. It involves selecting or focusing a market or customer segment in which to operate.

Concept Problem 32

What is cost leadership strategy? Under what circumstances an organization can gain competitive advantages from cost leadership strategy? Is there any risk in cost leadership strategy? [ICAI Nov 22]

Answer

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:

- a) when the market is composed of many price-sensitive buyers.
- b) when there are few ways to achieve product differentiation.
- c) when buyers do not care much about differences from brand to brand.
- d) 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:

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

Concept Problem 33

BHAVNAV is a business which makes and sells laptop computers in France. In recent years it has been struggling to compete with its rivals and has seen a significant fall in its market share. BHAVNAV's managers identify that majority of its products launched by BHAVNAV's rivals were high specification, with good quality materials and many innovative design features. Products with inferior quality, such as those sold by BHAVNAV have not sold well in France. This information led BHAVNAV's management team to decide to select a new business strategy based on Porter's Generic Strategic Model. Identify and suggest the best business strategy BHAVNAV's management has to opt for?

Answer

According to Porter, the three different business strategies are: cost leadership, differentiation, and focus. Porter called these base generic strategies.

The information about competitor activities indicates that the market is uninterested in low-cost items, so a cost leadership approach is unlikely to be successful for BHAVNAV. It is suggested to adopt a differentiation strategy and find some way of enabling its laptops to stand out from its rivals.

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.

Concept Problem 34

BudgetSmart Retailers, a renowned supermarket chain, faced fierce competition in the grocery retail sector due to escalating operational expenses. Rising costs from rent, labour, and inventory management challenged their profitability amidst the emergence of discount stores and online competitors. To counter this, BudgetSmart Retailers optimized their supply chain through bulk procurement, revamped store layouts for cost efficiency and customer experience, embraced lean operational practices to minimize waste, and conducted comprehensive staff training to boost productivity and customer service efficiency.

Identify & explain the strategy adopted by BudgetSmart Retailers to enhance the profitability. [MTP Nov 23]

Answer

Budget Smart Retailers adopted a cost leadership strategy to enhance profitability in the fiercely competitive grocery retail sector.

It is a low-cost competitive strategy that aims at broad mass market. It 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. Because of its lower costs, the cost leader is able to charge a lower price for its products than most of its competitors and still earn satisfactory profits.

By negotiating bulk procurement deals with suppliers, BudgetSmart Retailers lowered their cost of goods, allowing them to offer competitive prices to customers. The revamping of store layouts aimed to maximize space utilization and product placement, reducing operational costs and improving the overall shopping experience. Embracing lean principles minimized waste in the supply chain, reducing unnecessary expenses and improving efficiency. Comprehensive staff training boosted employee productivity and customer service efficiency, contributing to cost reduction and enhanced customer satisfaction.

CHAPTER 4

STRATEGIC CHOICE

Success is the sum of small efforts, repeated day in and day out.

Coverage

- | |
|---|
| 1) ICAI Study Material Questions & Solutions (100%) |
| 2) RTPs & MTPs till Nov 23 (100%) |
| 3) Past Year Questions till May 23 (100%) |

1. ICAI STUDY MATERIAL QUESTIONS

Scenario Based Questions

Concept Problem 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 and risks involved in it.

or

Shoaib and Salim, two brothers are the owners of a cloth manufacturing unit located in Lucknow. They are doing well and have substantial surplus funds available within the business. Shoaib is interested in acquiring another industrial unit located in Lucknow manufacturing tableware such as dinner sets, cups and saucers, bowls. etc. On the other hand, Salim desires to start another unit to produce readymade garments.

Discuss the nature of corporate strategies being suggested by two brothers. Which one is better?

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.

Concept Problem 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 organization and adopt such measures that the company functions properly. The board has decided to hire young executive Shayamli for improving the functions of the organization.

What corporate strategy should Shayamli adopt for this company and what steps to be taken to implement the corporate strategy adopted by Shayamli?

or

ABC Inc. a successful company in the healthcare industry, was facing a decline due to outdated technology and lack of innovation. The company was losing market share and struggling to retain customers. In an effort to reverse the trend, the management decided to implement a strategy. They hired new talent, invested in research and development, and streamlined their operations to increase efficiency. Through these efforts, ABC Inc. was able to introduce new products and services, reposition themselves in the market, and eventually regain their competitive edge. The company's revenue and profits increased, and they were once again on the path to success.

Discuss the strategy which has been implemented by the management of ABC Inc. [RTP May 23]

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 organizational 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 organization to do some repositioning.

A workable action plan for turnaround would involve:

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.

Stage Two - Analyze the situation and develop a strategic plan: Before making any major changes; determine the chances of business’s survival. Identify appropriate strategies and develop a preliminary action plan.

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. 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. 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. 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.

Concept Problem 3

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?

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.

Concept Problem 4

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 by Soft Cloth Ltd.

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:

- i) Persistent negative cash flow.*
- ii) Uncompetitive products or services*

- iii) Declining market share
- iv) Deterioration in physical facilities
- v) Overstaffing, high turnover of employees, and low morale
- vi) 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 organization chooses to focus on ways and means to reverse the process of decline, it adopts a 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.

Concept Problem 5

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.

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:

- a) Persistent cash flows from loss making segment could affect other profit-making segments, which is the case in the given scenario.
- b) Inability to cope from the losses, which again is uncertain due to pandemic.
- c) Better investment opportunity, which could be the case if X Pvt. Ltd. can invest the money it generates from divestment.

Concept Problem 6

Atrix Ltd. is a company engaged in the designing, manufacturing, and marketing of mechanical instruments like speed meters, oil pressure gauges, and so on. Their products are fitted into two and four wheelers. During the last couple of years, the company has been observing a fall in the market share. This is on account of shift to the new range of electronic instruments. The customers are switching away mechanical instruments that have been the backbone of Atrix Ltd.

As a CEO of Atrix Ltd., what can be the strategic options available with you.

Answer

Atrix is having a product portfolio that is evidently in the decline stage. The product is being replaced with the technologically superior product. Strategically the company should minimize their dependence on the

existing products and identify other avenues for the survival and growth. As a CEO of Atrix Ltd., following can be the strategic options available with the CEO:

- a) Invest in new product development and switchover to the new technology. Atrix Ltd. also need time to invest in emerging new technology.
- b) They can acquire or takeover a competitor provided they have or are able to generate enough financial resources.
- c) They may also consider unrelated growth and identify other areas for expansion. This will enable Atrix Ltd. to spread their risks.
- d) In longer run, they should divest the existing products. However, they may continue with the existing products in a limited manner for such time there is demand for the product.

Descriptive Questions

Concept Problem 7

Describe the construction of BCG matrix and discuss its utility in strategic management.

Answer

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing portfolio of different business units or major product lines. The BCG growth-share matrix facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth share matrix. Two dimensions are market share and market growth rate. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company's strength in the market.

Thus, the BCG matrix depicts quadrants as shown in the following table:

		Relative Market Share	
		High	Low
Market Growth	High	Stars	Question Marks
	Low	Cash Cows	Dogs

BCG Matrix

Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

- a) **Stars** are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.
- b) **Cash Cows** are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

- c) **Question Marks**, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organizations to turn them stars and then to cash cows when the growth rate reduces.
- d) **Dogs** are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimized by means of divestment or liquidation.

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.

- i) Build with the aim for long-term growth and strong future.
- ii) Hold or preserve the existing market share.
- iii) Harvest or maximize short-term cash flows.
- iv) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

Thus, BCG matrix is a powerful tool for strategic planning analysis and choice.

Concept Problem 8

An industry comprises of only two firms—Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

Product	Revenues (in Rs.)	Percent Revenues	Profits (in Rs)	Percent profits	% Market share	% Industry Growth rate
A	6 crores	48	120 lakhs	48	80	+ 15
B	4 crores	32	50 lakhs	20	40	+ 10
C	2 crores	16	75 lakhs	30	60	- 20
D	50 Lakhs	4	5 lakhs	2	5	- 10
Total	12.5 crores	100	250 lakhs	100	100	

Answer

Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix. In the matrix, the vertical axis represents market growth rate and provides a measure of market attractiveness. The horizontal axis represents relative market share and serves as a measure of company strength in the market. With the given data on market share and industry growth rate of Soorya Ltd, its four products are placed in the BCG matrix as follows:

Retain Market Share

		High	Low
Market Growth Rate	High	Product A [80% Market Share +15% Growth Rate] Stars	Product B [40% Market Share +10% Growth Rate] Question Marks
	Low	Product C [60% Market Share -20% Growth Rate] Cash Cows	Product D [05% Market Share -10% Growth Rate] Dogs

Product A is in best position as it has a high relative market share and a high industry growth rate.

Product B has a low relative market share, yet competes in a high growth industry.

Product C has a high relative market share, but competes in an industry with negative growth rate. The company should take advantage of its present position that may be difficult to sustain in long run.

Product D is in the worst position as it has a low relative market share, and competes in an industry with negative growth rate.

Concept Problem 9

Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product Market Growth Matrix to advise them of the available options.

Or

Sky chemical industry intends to grow its business. Advise the company on the available options using Ansoff's product market growth matrix. [MTP May 22] [MTP Nov 22] [MTP May 23]

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets.

The Ansoff's product market growth matrix is as follows:

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Ansoff's Product Market Growth Matrix

Based on the matrix, Aurobindo may segregate its different products. Being in pharmaceuticals, development of new products is result of extensive research and involves huge costs. There are also social dimensions that

may influence the decision of the company. It can adopt penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way.

Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company.

Product development refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets.

Diversification refers to a growth strategy where a business markets new product in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

Concept Problem 10

In the context of Ansoff's Product-Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases:

- i) A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.
- ii) A business giant in hotel industry decides to enter into dairy business.
- iii) One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets.
- iv) A renowned auto manufacturing company launches ungeared scooters in the market.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. This matrix further helps to analyse different strategic directions. According to Ansoff there are four strategies that organization might follow.

- i) **Market Penetration:** A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. It refers to a growth strategy where the business focuses on selling existing products into existing markets.
- ii) **Diversification:** A business giant in hotel industry decides to enter into dairy business. It refers to a growth strategy where a business markets new product in new markets.
- iii) **Market Development:** One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets.
- iv) **Product Development:** A renowned auto manufacturing company launches ungeared scooters in the market. It refers to a growth strategy where business aims to introduce new products into existing markets.

2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

Concept Problem 11

In the light of BCG Growth Matrix, state the situations under which the following strategic options are suitable:

- i) Build

- ii) Hold
- iii) Harvest
- iv) Divest

Answer

In the light of BCG Growth Matrix, once an organisation has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

- i) **Build:** Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
- ii) **Hold:** Here the objective is to preserve market share.
- iii) **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect.
- iv) **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

Concept Problem 12

How Ansoff's Product Market Growth Matrix is a useful tool for business organizations?

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends in new or existing products in both new and existing markets.

Companies should always be looking to the future. Businesses that use the Ansoff matrix can determine the best strategy. The matrix can help them to decide how to do this by demonstrating their options clearly, breaking them down into four strategies, viz., Market Penetration, Market Development, Product Development, Diversification. Determining which of these is best for their business will depend on a number of variables including available resources, infrastructure, market position, location and budget.

Concept Problem 13

Distinguish between Market Development and Product Development under Ansoff's Product Market Growth Matrix. [RTP Nov 22] [MTP May 23]

Answer

Following are the differences between the market development and product development:

Basis	Market Development	Product Development
Meaning	It refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for current company products.	It refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets.
Strategy Application	It may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments	It is for company's growth and requires the development of new competencies and the business to develop modified products which can appeal to existing markets

Concept Problem 14

Ajanta & Sons Limited are manufacturers of domestic household security alarms for high income group homeowners in India. The company is currently reviewing two strategic options.

Option 1: Selling the same alarms although with different coverings to smaller and low-income group households at a lower price.

Option 2: Development of new, more sophisticated alarms and a wide range of security services (guards and surveillance) for sale to industrial clients for higher prices.

The management team of Ajanta & Sons Limited are keen to analyse the two options using Ansoff's matrix.

Answer

Selling the same alarms with different coverings to smaller and low-income group households at a lower price represents Market Development as the same products are being sold into a new market. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company.

While the development of new and more sophisticated alarms and a wide range of security services (guards and surveillance) for sale to industrial clients for higher prices is classified as Diversification, because it involves a new product, being sold in a new market. Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

Concept Problem 15

Explain strategic implications of each of following types of business in a corporate portfolio [RTP May 22]

- a) Star
- b) Question Mark
- c) Cash Cow
- d) Dogs

Answer

In the BCG growth-share matrix portfolio of investments are represented in two-dimensional space. The vertical axis represents market growth rate, and the horizontal axis represents relative market share. The strategic implications for various business types under BCG in the corporate portfolio are:

a. Stars

Stars are products or businesses that are growing rapidly and are best opportunity for expansion. Stars may follow build strategy. They need heavy investments to maintain their position and finance their rapid growth potential.

b. Question Marks

Question Marks are low market share business in high-growth markets. Strategic option for them is hold for which they need heavy investments. Question marks if left unattended are capable of becoming cash traps.

c. Cash Cows

Cash Cows are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. Strategic alternative advocated for cash cows is harvest.

d. Dogs

Dogs are low-growth, low-share businesses and products. Relevant strategy is divest. Dogs may generate enough cash to maintain themselves, but do not have much future. Dogs should be minimized by means of divestment or liquidation.

Concept Problem 16

Explain the role of ADL Matrix in assessing competitive position of a firm. [RTP May 22]

Answer

The ADL matrix has derived its name from Arthur D. Little which is a portfolio analysis method based on product life cycle. The approach forms a two-dimensional matrix based on stage of industry maturity and the firm's competitive position, environmental assessment and business strength assessment. The role of ADL matrix is to assess the competitive position of a firm based on an assessment of the following criteria:

- a. **Dominant:** This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong.
- b. **Strong:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitors.
- c. **Favourable:** This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.
- d. **Tenable:** Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
- e. **Weak:** The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

Concept Problem 17

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 realizes 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

Shreekanth 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 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.

Action plan for turnaround would involve:

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:

Concept Problem 18

Swift Insurance is a company engaged in the business of providing medical insurance maintaining 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 the strategy being followed by the Swift Insurance with its advantages.

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:

- i) Its brand name.
- ii) The marketing skills available.
- iii) The existing sales and distribution infrastructure.
- iv) Research and development.
- v) Economies of scale

Concept Problem 19

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 were in business of manufacturing silk and now they will manufacture cotton as well. 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.

Concept Problem 20

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, fertilizers, paints and commodity plastics. But expanding the scope of business to so many businesses; little it did for the bottom line.

On analyzing, 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, fertilizers, 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. There was little commonality between bulk chemicals and fertilizers, 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

- a) breaking up the company into constituent parts; may be two or three and put the related businesses into the relevant SBUs and
- b) consider selling off the businesses that are totally unrelated or
- c) totally get into unrelated diversification and form a structure accordingly.

Concept Problem 21

What is Divestment strategy? When is it adopted?

Answer

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center 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:

- i) When a turnaround has been attempted but has proved to be unsuccessful.
- ii) A business that had been acquired proves to be a mismatch and cannot be integrated within the company.

- iii) Persistent negative cash flows from a particular business create financial problems for the whole company.
- iv) Severity of competition and the inability of a firm to cope with it.
- v) Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it.
- vi) A better alternative may be available for investment.

Concept Problem 22

Write short note on expansion through acquisitions and mergers. [RTP Nov 22]

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 finalized 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 its 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.

Concept Problem 23

Distinguish between concentric and conglomerate diversification. [ICAI May 22]

Answer

Difference between Concentric Diversification and Conglomerate Diversification:

Concentric Diversification	Conglomerate Diversification
Concentric diversification occurs when a firm adds related products or markets.	Conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business.
New business is linked to existing businesses through process, technology or marketing.	New business/ product is disjointed from existing businesses/products.
Most common reason for pursuing a concentric diversification are that opportunities in a firm's existing line of business are available	Most common reason for pursuing a conglomerate strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

Concept Problem 24

Differentiate between divestment and liquidation strategy.

Or

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. Explain the difference between these two.

Answer

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:

Divestment Strategy:	Liquidation Strategy:
<i>Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center or SBU.</i>	<i>It involves closing down a firm and selling its assets.</i>
<i>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.</i>	<i>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.</i>
<i>Efforts are made for the survival of organization.</i>	<i>Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive.</i>
<i>Survival of organization helps in retaining personnel, at least to some extent.</i>	<i>There is loss of employment with stigma of failure.</i>

Concept Problem 25

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

Or

"XYZ Ltd., a multi-product company, has been experiencing consistent losses in recent years, leading to a significant erosion of its net worth. What strategic options should the management consider addressing the company's current situation? Provide recommendations along with supporting reasons." [MTP Nov 23]

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.

The company may consider a retrenchment strategy. 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:

- a) The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.*
- b) The environment faced is threatening.*

c) *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.

- i) **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.
- ii) **Divestment Strategy:** Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center 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.
- iii) **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. The decision will depend on the specific circumstances of each electrical home appliances and management goals of the company.

Concept Problem 26

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 sum 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

Concept Problem 27

State with reasons which of the following statements is correct / incorrect:

- i) Divesting a major product line or market is termed as retrenchment strategy
- ii) Acquisition is a type of growth strategy
- iii) Diversification only involves entering in new businesses that are related to the existing business of an organization
- iv) Vertical diversification integrates firms forward or backward in the product chain
- v) Concentric diversification amounts to unrelated diversification
- vi) Liquidation is the last resort option for a business.
- vii) Retrenchment implies downsizing of business
- viii) Stability strategy is not a 'do-nothing' strategy.
- ix) There is no such thing as backward integration.
- x) Turnaround should succeed liquidation strategy.

Answer

i) **Correct:**

An organization can redefine its business by divesting a major product line or market. The divesting can be termed as retrenchment strategy. The enterprise may withdraw from marginal markets, withdraw some brands or sizes of products. It may also withdraw some of slow-moving products. In an extreme manner it may seek retirement either from the production or the marketing activity.

ii) **Correct:**

An acquisition is a type of growth strategy through which one firm buys a controlling or complete interest in another firm. Acquisition of an existing concern is an instant means of achieving growth through expansion and/or diversification. Ideally, acquisition strategy should be used when the acquiring firm is able to enhance its economic value through ownership and the use of the assets that are acquired.

iii) **Incorrect:**

Although, organizations can diversify into businesses that are vertically or horizontally related to the existing businesses, the diversification is not limited to the related businesses. In conglomerate diversification; the new businesses/ products are disjointed from the existing businesses/products in every way. There is no connection between the new products and the existing ones in process, technology or function.

iv) **Correct:**

In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. It moves forward or backward in the chain and enters specific product with the intention of making them part of new businesses for the firm.

v) **Incorrect:**

Concentric diversification amounts to related diversification. Concentric diversification takes place when the products or services added are in different industry but are similar to the existing product or service line with respect to technology or production or marketing channels or customers

vi) **Correct:**

Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive. 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 a firm could pursue, and the stigma of failure. The company management, government, banks and financial institutions, trade unions, suppliers, creditors, and other agencies are extremely reluctant to take a decision, or ask for liquidation.

vii) **Incorrect:**

In the context of strategic management, retrenchment implies giving up certain products and reducing the level of business as a compulsive measure to cope up with certain adverse developments on which the firm has little control. Downsizing (or rightsizing) is planned elimination of positions or jobs. Retrenchment does not imply downsizing; however, the latter is often used to implement a retrenchment strategy.

viii) **Correct:**

Stability strategies are implemented by approaches wherein few functional changes are made in the products or markets. It is not a 'do nothing' strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for mature business organizations. Some small organizations will also frequently use stability as a strategic focus to maintain comfortable market or profit position.

ix) **Incorrect:**

Organisations may diversify into new businesses that are vertically integrated with their existing business. Backward integration firms create effective supply by entering business of input providers. This strategy is employed to expand profits and gain greater control over production.

x) **Incorrect:**

A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which 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. In an ideal scenario, turnaround should be attempted first and should precede option of liquidation.

Concept Problem 28

Leatherite Ltd., was started as a leather company to manufacture footwear. Currently, they are in the manufacturing of footwears for males and females. The top management desires to expand the business in the leather manufacturing goods. To expand they decided to purchase more machines to manufacture leather bags for males and females.

Identify and explain the strategy opted by the top management of Leatherite Ltd.

Answer

Leatherite Ltd. is currently manufacturing footwears for males and females and its top management has decided to expand its business by manufacturing leather bags for males and females. Both the products are similar in nature within the same industry. The strategic diversification that the top management of Leatherite Ltd. has opted is concentric in nature. They were in business of manufacturing leather footwears

and now they will manufacture leather bags as well. 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.

Concept Problem 29

Why a Turnaround Strategy is required for a business?

Or

Racers Ltd. manufactures bicycles. Until recently it has adopted a differentiation strategy, offering high quality bicycles which Racers Ltd. sells at a high profit margin.

In recent years, Racers Ltd. has entered a period of decline due to the market becoming flooded with cheaper, high-quality bicycles from abroad, where labour costs are lower.

Racers Ltd. has therefore decided to adjust its strategy and adopt a focus approach, targeting its bicycles towards professional athletes. This will allow Racers Ltd. to continue earning high margins, though the size of its potential market will likely fall.

Identify and explain the need of adopting this strategy by Racers Ltd. to manage decline? [RTP May 22]

Answer

Racers Ltd. has adopted Turnaround strategy. This involves Racers Ltd. Repositioning itself in the market in an attempt to once again gain competitive advantage.

Turnaround is needed when an enterprise's performance deteriorates to a point that it needs a radical change of direction in strategy, and possibly in structure and culture as well. It is a highly - targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. It is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is difficult.

The overall goal of turnaround strategy is to transform an underperforming or distressed company to normalcy in terms of acceptable levels of profitability, solvency, liquidity and cash flow. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavourable industry characteristics.

Concept Problem 30

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.?

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: 5 Stages from above.

Concept Problem 31

What strategic alternative should be followed during recession?

Answer

Stability strategy is an advisable option for the organizations facing recession.

During recession businesses face reduced demand for their products even at low prices. Funds become scarce, expenditure on expansion is stopped, profits decline and businesses try to minimize the costs. They work hard to maintain the existing market share, so that company survives the recessionary period.

Concept Problem 32

Distinguish between the following:

- a) Forward Integration and Backward Integration.*
- b) Expansion Strategy and Retrenchment Strategy.*
- c) Vertically Integrated Diversification and Horizontally Integrated Diversification.*

Answer

- a) Forward and backward integration form part of vertically integrated diversification.*

In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

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 lower its cost of production. On the other hand, forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organizations enter into businesses of distribution channels.

- b) Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. On the other hand, Retrenchment Strategy involves redefinition of business by divesting a major product line or market.*

Expansion is a promising and popular strategy that tends to be equated with dynamism, vigour, promise and success. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal.

Expansion may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls. Retrenchment involves regrouping and recouping of the resources.

- c) In vertically integrated 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. Sequence moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.*

On the other hand, horizontal Integrated Diversification is the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' businesses

Concept Problem 33

Strategic alliances are formed if they provide an advantage to all the parties in the alliance. Do you agree? Explain in brief the advantages of a strategic alliance.

Answer

Strategic alliances are formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorized as follows:

a) Organizational:

Strategic alliances may be formed to learn necessary skills and obtain certain capabilities from the strategic partner. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. A strategic partner may provide a good or service that complements each other, thereby creating a synergy. If one partner is relatively new or untried in a certain industry, having a strategic partner who is well-known and respected will help add legitimacy and credibility to the venture.

b) Economic:

Alliances can reduce costs and risks by distributing them across the members of the alliance. Partners can obtain greater economies of scale in an alliance, as production volume increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, where specializations are bundled together, creating additional value.

c) Strategic:

Organizations may join to cooperate instead of compete. Alliances may also create vertical integration 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

d) Political:

Sometimes there is need to form a strategic alliance 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 overall influence and position.'

Concept Problem 34

Justify the statement "Stability strategy is opposite of Expansion strategy".

Answer

Stability strategies, as name suggests, are intended to safeguard the existing interests and strengths of business. It involves organizations 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.

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, vigour, 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.

Concept Problem 35

Mini theatre Ltd. was a start-up 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.

Answer

The leadership team of Mini theatre Ltd. decided to cut 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.

Concept Problem 36

Explain the term Merger and Acquisition as a growth strategy. Differentiate between both of them. State the situations in which such strategies are considered by any organization.

Answer

Acquisition or merger with an existing concern is an instant means of achieving 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.

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.

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 its 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.

Concept Problem 37

GWA, a leading Japan based automobile company decided to make India a hub for the company's 250cc motor cycle to be manufactured in collaboration with the TPR Group, a leading Indian 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. [ICAI Dec 21]

Or

Jeff Inc., a leading USA based Mobile company decides to make India a hub for the company's Android Mobile having largest storage memory to be manufactured in collaboration with the Desi Group, a leading Indian mobile manufacturer. The production is to be exported to the company's home market as well as to other European countries.

What is this growth strategy called? Point out the most important advantages both the companies expect from such strategy/collaboration. [MTP May 23]

Answer

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 [Refer Q 25]

Concept Problem 38

There has been fierce demand for both Gecko and FlyBee for the last 3 years. Gecko makes mass consumption pens while FlyBee is a notebook and diary brand - both being complementary goods of each other. But to grow further, FlyBee decided to take up competition with Gecko in pens segment and thereby launched, FlyPens. Identify and explain the growth strategy opted by FlyBee? [MTP May 22]

Answer

FlyBee is a notebook and diary brand. But to grow further, FlyBee decided to take up competition with Gecko in pens segment and thereby launched, FlyPens. FlyBee that is hitherto not into producing pens starts producing them and other similar products is following concentric diversification which is basically related diversification.

In this form of diversification, the new business is linked to the existing businesses through existing systems such as processes, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. The most common reasons for pursuing a concentric diversification are that opportunities in existing line of business are available.

Concept Problem 39

ABC Steel industries find out that its products have reached at maturity stage and already has overcapacity. Therefore, it concentrates on maintaining operational efficiency of its plants. Identify the strategy implemented by ABC Steel Industries along with reasons. [ICAI May 22]

Or

What is stability strategy? What are the reasons to pursue stability strategy? [RTP Nov 23]

Answer

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:

- i) A product has reached the maturity stage of the product life cycle.
- ii) The staff feels comfortable with the status quo as it involves less changes and less risks.
- iii) It is opted when the environment in which an organisation is operating is relatively stable.
- iv) Where it is not advisable to expand as it may be perceived as threatening.
- iv) After rapid expansion, a firm might want to stabilize and consolidate itself.

Concept Problem 40

Jynklo Ltd. is an established online children gaming company in Japan. They are performing good in the gaming industry. The management of Jynklo Ltd. has decided to expand its business. They decided to start a premium sports drink named JynX for athletes. Identify and explain the growth strategy adopted by Jynklo Ltd.? [MTP Nov 22] [RTP Nov 23]

Answer

Currently Jynklo Ltd. is performing in the children gaming industry. But now its management has decided to expand their business by starting a premium sports drink named JynX for athletes. As there are no linkages in both products with respect to customer groups, customer functions, or the technologies being used, so Jynklo Ltd. have opted **Conglomerate diversification**.

Jynklo Ltd. diversify in a business that is not related to their existing line of product and can be termed as conglomerate diversification. 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.

Concept Problem 41

Woodworld Ltd. is a company manufactures a variety of household furniture items. They offered traditional designs, low-cost furniture items to low-income group customers. During the last couple of years, the company has been observing a fall in the market share. This is due to the change in the taste and preferences, designing, better quality, increase in purchasing power of buyers towards the household furniture. The customers are switching away traditional designs and material that have been backbone of Woodworld Ltd.

As a CEO of Woodworld Ltd., what can be strategic options available with you. [RTP Nov 22] [MTP Nov 23]

Answer

Woodworld is having a product portfolio that is evidently in the decline stage. The product is being replaced with the latest designs with better quality of the product. Strategically, the company should minimize their dependence on the existing products and identify other avenues for the survival and growth. As a CEO of Woodworld Ltd., following can be the strategic options available with the CEO:

- a) Invest in new product development and switchover to the latest designs. Woodworld Ltd. also need time

to invest in hiring interior designers.

- b) They can acquire or takeover a competitor, provided they have or are able to generate enough financial resources.
- c) They may also consider unrelated growth and identify other areas for expansion. This will enable Woodworld Ltd. to spread their risks.
- d) In longer run, they should divest the existing products. However, they may continue with the existing products in a limited manner for such time there is demand for the product.

Concept Problem 42

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? [ICAI Nov 22]

Answer

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:

- a) A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- b) Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- c) Severity of competition and the inability of a firm to cope with it may cause it to divest.
- d) 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.
- e) A better alternative may be available for investment, causing a firm to divest a part of its unprofitable business.

Concept Problem 43

Redefinition of business is involved in both "Expansion" and "Retrenchment" strategy, however, method involved in their execution is completely different. Explain. [MTP May 23] [MTP Nov 23]

Answer

Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. On the other hand, Retrenchment strategy involves redefinition of business by divesting a major product line or market.

Expansion is a promising and popular strategy that tends to be equated with dynamism, vigour, promise and success. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal.

Expansion may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls. Retrenchment involves regrouping and recouping of the resources.

Concept Problem 44

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 & 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? [ICAI May 23]*

Answer

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 its 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.

Concept Problem 45

ABC Corporation is a conglomerate with a diverse portfolio of businesses. One of its businesses is a well-established division in a mature and stable market. The division has maintained a high market share over the years but is experiencing slow growth due to market saturation. The management team is contemplating the best course of action for this division. How should ABC Corporation approach this division according to the BCG growth-share matrix, and what would be the rationale behind it? [RTP Nov 23]

Answer

According to the BCG growth-share matrix, the division in a mature and stable market falls into the "Cash Cows" category.

"Cash Cows" are low-growth, high market share businesses that generate cash with low costs. The recommended approach for ABC Corporation would be to adopt the "Hold" strategy.

This means the company should preserve the market share of the division and continue generating cash with low costs. Since the market is mature and growth opportunities are limited, the division's focus should be on maintaining profitability and using the generated cash to support other high-potential businesses within the conglomerate. By holding onto the "Cash Cow" division, ABC can leverage its stability and cash flow to invest strategically in other areas of the business for future growth and innovation.

CHAPTER 5

STRATEGIC IMPLEMENTATION & EVALUATION

The earlier you start working on something, the earlier you will see results.

Coverage

- 1) ICAI Study Material Questions & Solutions (100%)
- 2) RTPs & MTPs till Nov 23 (100%)
- 3) Past Year Questions till May 23 (100%)

1. ICAI STUDY MATERIAL QUESTIONS

Scenario Based Questions

Concept Problem 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. [MTP May 22]

Or

Ram and Shyam are two brothers engaged in the business of spices. Both have different approaches to management. Ram prefers the conventional and formal approach in which authority is used for explicit rewards and punishment. While, on the other hand, Shyam believes in democratic participative management approach, involving employees to give their best.

Analyse the leadership style followed by Ram and Shyam. [MTP Nov 23 with different names]

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.

Concept Problem 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.

Or

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. [ICAI Nov 22]

Or

You have been appointed as head of the Strategic Business unit of a large multi-product company. Explain the leadership roles, you have to play as a manager in pushing for good strategy execution. [ICAI May 23]

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 mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
- iii) 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.

Concept Problem 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:

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

Concept Problem 4

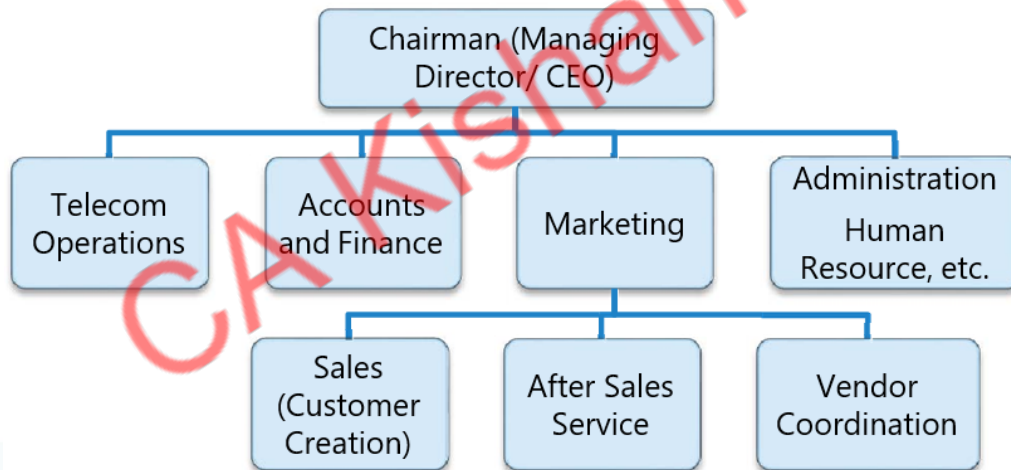
Manoj started his telecom business in 2010. Over next five years, he gradually hired fifty people for various activities such as to keep his accounts, administration, sell his products in the market, create more customers, provide after sales service, coordinate with vendors.

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 organizational 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:



Concept Problem 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:

- i) Establishing coordination between divisions having common strategic interest.
- ii) Facilitate strategic management and control.
- iii) Determine accountability at the level of distinct business units.
- iv) Allow strategic planning to be done at the most relevant level within the total enterprise.
- v) Make the task of strategic review by top executives more objective and more effective.
- vi) 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.

Concept Problem 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. [MTP May 22]

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:

- i) Objectives of the business system which could be operationalized into measurable and controllable standards.
- ii) A mechanism for monitoring and measuring the performance of the system.
- iii) 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.
- iv) 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.

Descriptive Questions

Concept Problem 7

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

Or

How the 'Strategic Business Unit (SBU)', structure becomes imperative in an organization with increase in number, size and diversity of divisions? [RTP May 22]

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:

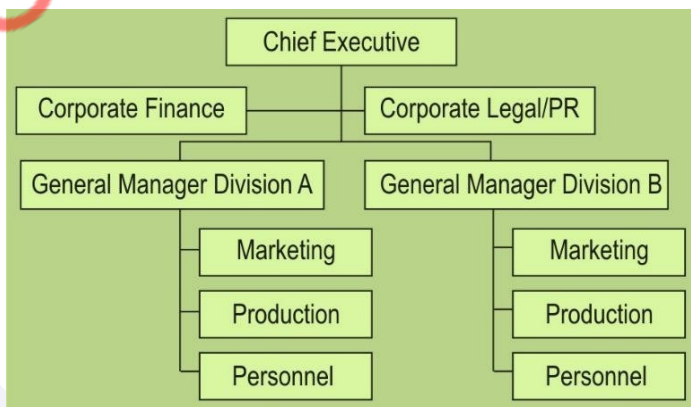
- i) Establishing coordination between divisions having common strategic interests.
- ii) Facilitates strategic management and control on large and diverse organizations.
- iii) Fixes accountabilities at the level of distinct business units.
- iv) Allows strategic planning to be done at the most relevant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

Concept Problem 8

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

Answer

Divisional structure is that organizational structure which is based on extensive delegation of authority and built on division basis. The divisional structure can be organized 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

- a) **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.

- b) **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

- a) **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.
- b) **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.

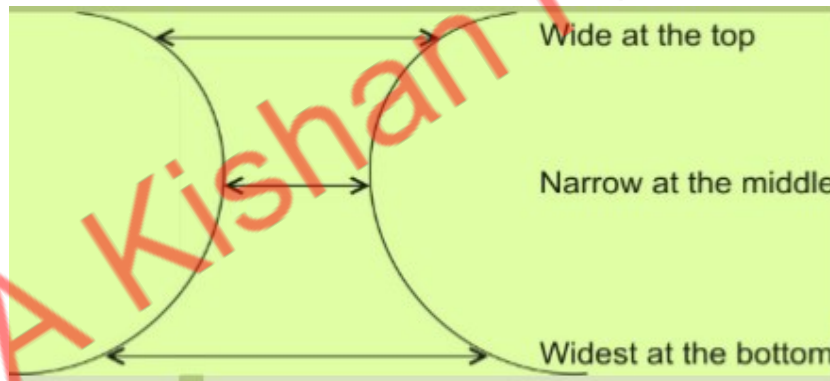
Concept Problem 9

What is an 'hour glass 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 organization 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 activity.



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.

Concept Problem 10

How can you differentiate between transformational and transactional leaders? [MTP Nov 22]

Answer

Difference between transformational and transactional leadership:

- i) 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.

- ii) Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organizations, 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 organizations that are performing well.
- iii) Transformational 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.

Concept Problem 11

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.

- 1) **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.

- 2) **Changing to New situation:** Once the unfreezing process has been completed and the members of the organization recognize 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.
- 3) **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.

Concept Problem 12

What are the differences between operational control and management control? [MTP Nov 22] [MTP Nov 23]

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 organization, 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 organizations 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.

Concept Problem 13

What is strategic control? Briefly explain the different types of strategic control? [RTP Nov 22]

Or

“Strategic control focuses on implementation and results produced by the strategy” Explain Strategic control along with its different types. [ICAI May 23]

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:

- i) **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.
- ii) **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.
- iii) **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.
- iv) **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 the light of unfolding events and results.

Concept Problem 14

What is implementation control? Discuss its basic forms. [RTP Nov 23]

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

- i) **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.
- ii) **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.

Concept Problem 15

Strategy execution is an operations-oriented activity which involves a good fit between strategy and organizational capabilities, structure, climate & culture. Enumerate the principal aspects of strategy execution process which are used in most of the situations.

Or

To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets. Explain the principal aspects of strategy-execution process.

Or

Explain the principal/important aspects of strategy-execution process. [ICAI Dec 21] [MTP Nov 22] [MTP Nov 23]

Answer

Implementation or execution is 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 and culture.

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

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

Concept Problem 16

State with reasons which of the following statements is correct / incorrect:

- a) Strategic planning is an attempt to improve operational efficiency.
- b) The first step of strategy formulation in strategic management model is to undertake internal analysis.
- c) For a small entrepreneur vision and mission are irrelevant.

Answer

- a) Incorrect:

Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. Strategic Planning is a function of top management level in the organization and relate the organization with its environment. Operational efficiency is not a direct outcome of strategic planning.

b) Incorrect:

Identifying an organization's existing vision, mission, objectives, and strategies is the starting point for any strategic management process because an organization's existing situation and condition may preclude certain strategies and may even dictate a particular course of action. Determining vision and mission provides long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organization with a sense of purposeful action.

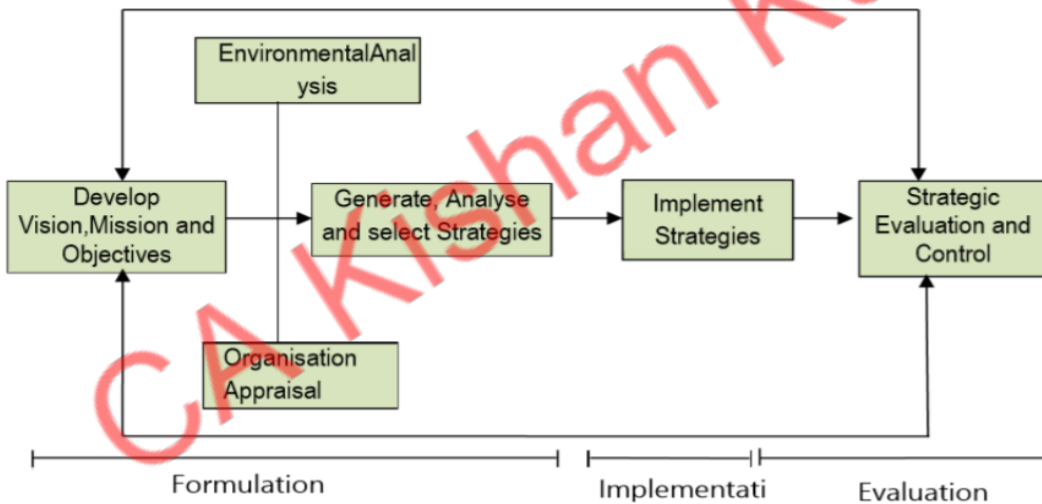
c) Incorrect:

Entrepreneur, big or small has to function within several influences' external forces. Competition in different form and different degree is present in all kind and sizes of business. Even entrepreneur with small businesses can have complicated environment. To grow and prosper they need to have clear vision and mission.

Concept Problem 17

Present a diagrammatic representation of a Strategic Management model.

Answer



Concept Problem 18

How can a company deal with strategic uncertainty?

Answer

Strategic uncertainty denotes the uncertainty that has crucial implications for the organisation. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

Concept Problem 19

Differentiation between Strategic Planning and Operational Planning. [RTP May 22] [MTP May 22]

Answer

Following are the differences between Strategic Planning and Operational Planning:

Strategic Planning	Operational Planning
Strategic planning shapes the organization and its resources.	Operational planning deals with current deployment of success.
Strategic planning assesses the impact of environmental variables.	Operational planning develops tactics rather than strategy.
Strategic planning takes a holistic view of the organization.	Operational planning projects current operations into the future.
Strategic planning develops overall objectives and strategies.	Operational planning makes modification to the business functions but not fundamental changes.
Strategic planning is concerned with the long – term success of the organization.	Operational planning is concerned with the short – term success of the organization.
Strategic planning is a senior management responsibility.	Operational planning is the responsibility of functional managers.

Concept Problem 20

Jupiter Electronics Ltd. is known for its ability to come out with path-breaking products. Though the work environment at Jupiter’s 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 organization that are being discussed? Explain.

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 energize people throughout the organization 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 realizing the organizational vision, do their jobs competently and with enthusiasm, and collaborate with others.

Concept Problem 21

What do you mean by strategic leadership? What are two approaches to leadership style?

Answer

Strategic leadership is the ability of influencing others to voluntarily make decisions that enhance prospects for the organization’s long-term success while maintaining short-term financial stability. It includes determining the firm’s strategic direction, aligning the firm’s strategy with its culture, modelling and communicating high ethical standards, and initiating changes in the firm’s strategy, when necessary. Strategic leadership sets the firm’s direction by developing and communicating a vision of future and inspire

organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities.

Two basic approaches to leadership can be transformational leadership style and transactional leadership style.

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, 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. 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.

Transactional leadership style focuses more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style uses the 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 leadership style may be appropriate in static environment, in growing or mature industries, and in organizations that are performing well. The style is better suited in persuading people to work efficiently and run operations smoothly.

Concept Problem 22

Discuss the leadership role played by the managers in pushing for good strategy execution.

Answer

A strategy manager/ 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:

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

Concept Problem 23

What is corporate culture? How is it both strength and weakness of an organization?

Answer

Corporate culture distinguishes one organization from another. It refers to a company's values, beliefs, business principles, traditions, and ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers. Culture affects not only the way managers behave within an organization but also the decisions they make about the organization's relationships with its environment and its strategy.

A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution

Culture is both a strength and a weakness as follows:

Culture as a strength: As a strength, culture can facilitate communication, decision-making & control and create cooperation & commitment. An organization's culture could be strong and cohesive when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organization.

Culture as a weakness: As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterized as weak when many subcultures exist, few values and behavioral norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment and loyalty with the organization.

Concept Problem 24

Discuss the concept of Multi Divisional Structure.

Answer

Multidivisional (M-form) structure is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day - to-day operations and business unit strategy to division managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls.

Multidivisional or M-form structure was developed in the 1920s, in response to coordination- and control-related problems in large firms. Functional departments often had difficulty dealing with distinct product lines and markets, especially in coordinating conflicting priorities among the products.

Costs were not allocated to individual products, so it was not possible to assess an individual product's profit contribution. Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible). Top managers became over-involved in solving short-run problems (such as coordination, communications, conflict resolution) & neglected long-term strategic issues.

Multidivisional structure calls for:

- Creating separate divisions, each representing a distinct business
- Each division would house its functional hierarchy;
- Division managers would be given responsibility for managing day-to-day operations;
- A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions.

Concept Problem 25

Delta is an organization specializing 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? How can this structure benefit the

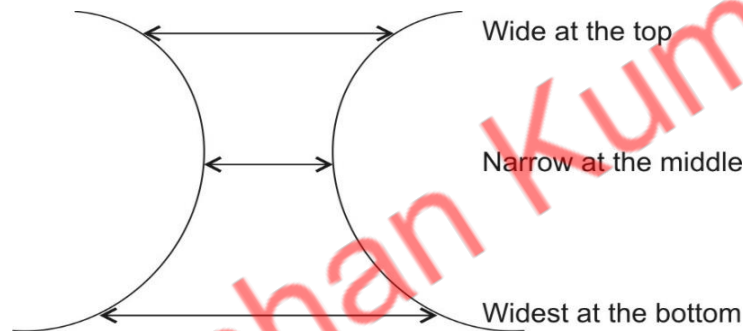
organization?

Or

Maadhyam, a hearing aid manufacturer recently introduced an AI based management tool in its organization which are having the qualities and capabilities of managing teams across functions. 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 organisation and assists in quick decision making. The skewed middle level managers now perform cross-functional duties. What could be their new organizational structure post implementation of AI based management tool?

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.



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.

Concept Problem 26

State with reasons which of the following statements is correct / incorrect:

- i) Strategies may require changes in organizational structure.
- ii) SBU concept facilitates multi-business operations.
- iii) Culture promotes better strategy execution.
- iv) An organization's culture is always an obstacle to successful strategy implementation.
- v) Corporate culture is always identical in all the organizations.
- vi) Structure has no impact on the strategy of the organization.
- vii) Network Structures eliminate many in-house functions.

Answer

- i) Correct:

Strategies may require changes in structure as the structure dictates how resources will be allocated. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, should follow strategy. Without a strategy or reasons for being, companies find it difficult to design an effective structure.

ii) **Correct:**

Organizing business along SBU lines and creating strategic business units has become a common practice for multi-product/service and global organizations. It is a convenient and intelligent grouping of activities along distinct businesses and has replaced the conventional groupings. SBU facilitates strategic planning, gaining product related/market-related specialization, gaining cost-economies and more rational organizational structure

iii) **Correct:**

Strong culture in an organization promotes good strategy execution when there's fit and hurt 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 energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution.

iv) **Incorrect:**

A company's culture is manifested in the values and business principles that management preaches and practices. The beliefs, vision, objectives and business approaches and practices underpinning a company's strategy may be compatible with its culture or may not. When they are compatible the culture becomes a valuable ally in strategy implementation and execution

v) **Incorrect:**

Every company has its own organizational culture. Each has its own business philosophy and principles, its own ways of approaching to the problems and making decisions, its own work climate, work ethics, etc. Therefore, corporate culture need not be identical in all organizations. However, every organization over a period of time inherits and percolates down its own specific work ethos and approaches.

vi) **Incorrect:**

Structures are designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reason for being, it will be difficult to design an effective structure. Strategic developments may require allocation of resources and there may be a need for adapting the organisation's structure to handle new activities as well as training personnel and devising appropriate systems.

vii) **Correct:**

The network structure can be termed a “non-structure” by its virtual elimination of in-house business functions. Many activities are outsourced. A corporation 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.

Concept Problem 27

Write a short note on importance of corporate culture.

Answer:

A culture where creativity, embracing change, and challenging the status quo are pervasive is very conducive to successful execution of a product innovation and technological leadership strategy. 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 is very conducive to successful execution of a strategy of delivering superior customer service.

A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this 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 realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to success.

Concept Problem 28

Explain briefly the role of culture in promoting better strategy execution.

Or

'A strategy-supportive culture promotes good strategy execution.' Explain. [RTP Nov 22]

Answer

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 energize people throughout the organization 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 realizing the organizational vision, do their jobs competently and with enthusiasm, and collaborate with others.

Concept Problem 29

'A network structure is suited to unstable environment.' Elaborate. [RTP May 22]

Or

Due to reoccurrence of various variants of Corona virus, LMN Ltd., is facing unstable environment and it has started unbundling and disintegrating its activities. Identify the organization structure LMN Ltd, is shifting to. Under what circumstances this structure becomes useful? [ICAI May 22]

Answer

Network structure is a more radical organizational design. The network structure could be termed a "non-structure" as it virtually eliminates in-house business functions and outsource many of them. An organisation 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.

Concept Problem 30

Briefly describe the impact of corporate culture on an organization.

Answer

Corporate culture refers to values, beliefs, business principles, traditions, ways of operating, and internal work environment. An organization's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, business approaches and practices underpinning a company's strategy may be compatible with its culture or not. When they are, the culture becomes a valuable ally in strategy implementation and execution. When the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the culture becomes a stumbling block that impedes successful strategy implementation and execution.

A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution.

Concept Problem 31

What steps would you suggest to change a company's problem culture?

Or

You are appointed as a manager of a company where you find that the company's culture is out of sync with what is needed for strategic success. Discuss steps you would initiate to tackle the problem. [RTP May 23]

Answer

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 instill ones that are more strategy-supportive

- i) The first step is to diagnose which facets of the present culture are strategy supportive and which are not
- ii) Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed
- iii) 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

The menu of culture-changing actions includes revising policies and procedures, altering incentive compensation, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

Concept Problem 32

'To coordinate more complex organizational functions, companies should abandon the simple structure in favour of the functional structure' Discuss.

Answer

Simple organizational structure is most appropriate usually in those small organizations that follow single business strategy and offer a line of products in a single geographic market. When a small organization grows, its complexities also tend to grow which necessitates the companies to abandon the simple organization structure which it has been adopting hitherto and move towards structures like functional organizational structure. A typical simple organization structure is often owner driven with small number of employees.

Functional structure groups tasks and activities by business function, such as production, marketing, finance, research and development and is generally headed by Chief Executive Officer or Managing Director. Besides being simple and inexpensive, a functional structure also promotes specialization, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making. At the same time with the passage of time and overall growth much more complex organizational structures exist in business

world. However, dividing organization according to functional lines is invariably found at some level or the other.

Concept Problem 33

Davis and Lawrence have proposed three distinct phases to develop matrix structure. Explain.

Answer

For development of matrix structure; Davis and Lawrence have proposed three distinct phases:

- a) **Cross-functional task forces:** Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link
- b) **Product/brand management:** If the cross-functional task forces become more permanent, the project manager becomes a product or brand manager and a second phase begins. In this arrangement, function is still the primary organizational structure, but product or brand managers act as the integrators of semi-permanent products or brands.
- c) **Mature matrix:** The third and final phase of matrix development involves a true dual-authority structure. Both the functional and product structures are permanent. All employees are connected to both a vertical functional superior and a horizontal product manager.

Concept Problem 34

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?

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.

Concept Problem 35

Elucidate Matrix Structure.

Or

Write a short note on Matrix structure. [RTP Nov 23].

Answer

In matrix structure, functional and product forms are combined simultaneously at the same level of the organization. Employees have two superiors, a product / project manager and a functional manager. The “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:

- a) Ideas need to be cross-fertilized across projects or products;
- b) Resources are scarce; and
- c) Abilities to process information and to make decisions need to be improved.

Concept Problem 36

Bunch Pvt Ltd is dealing in multiproduct like electronics and FMCG and are having outlets in different cities and markets across India. Due to scale of operation, it is having technical difficulty in dealing with distinct product line and markets especially in coordination and control related problems. Identify and suggest an ideal organizational structure for Bunch Pvt Ltd in resolving the problem? [MTP May 23]

Answer

To deal with the problems facing by the Bunch Pvt Ltd., we suggest Multi divisional structure for the organisation. Multidivisional (M-form) structure is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to division managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls.

Multidivisional or M-form structure was developed in the 1920s, in response to coordination- and control-related problems in large firms. Functional departments often had difficulty dealing with distinct product lines and markets, especially in coordinating conflicting priorities among the products. Costs were not allocated to individual products, so it was not possible to assess an individual product's profit contribution. Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible). Top managers became over-involved in solving short-run problems (such as coordination, communications, conflict resolution) and neglected long-term strategic issues.

Concept Problem 37

A Chennai based fast moving consumer goods (FMCG) major CDE Ltd. recently announced restricting 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 business. The top corporate officers shall delegate responsibility for day-to-day operations and business unit strategy to the concerned structure.

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. [ICAI Dec 21]

Answer

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:

- i) A scientific method of grouping the businesses of a multi – business corporation which helps the firm in strategic planning.
- ii) An improvement over the territorial grouping of businesses and strategic planning based on territorial units.
- iii) Strategic planning for SBU is distinct from rest of businesses. Products/ businesses within an SBU receive same strategic planning treatment and priorities.
- iv) Each SBU will have its own distinct set of competitors and its own distinct strategy.
- v) The CEO of SBU will be responsible for strategic planning for SBU and its profit performance.
- vi) Products/businesses that are related from the stand point of function are assembled together as a distinct SBU.
- vii) Unrelated products/ businesses in any group are separated into separate SBUs.
- viii) Grouping the businesses on SBU lines helps in strategic planning by removing the vagueness and confusion.
- ix) Each SBU is a separate business and will be distinct from one another on the basis of mission, objectives etc.

Concept Problem 38

What do you understand by functional structure? [MTP May 22]

Answer

Functional structure is widely used because of its simplicity and low cost. A functional structure groups tasks and activities by business function.

The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources. Disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, etc.

Concept Problem 39

"Samar Electronics Limited" is engaged in manufacturing and sale of consumer electronic goods globally. The company is rated 'best' in "customer satisfaction survey" for 5 years in a row. The spread of the current pandemic has affected the internal and external environment of the company adversely. Such adverse impact has negatively impacted the revenue of the company. In order to survive and retain the business, the company decided to outsource a major part of its organisational activities, like manufacturing, distribution channels, after sales service etc. Now the organisation's business functions are scattered worldwide with a small headquarter connected to independent business units digitally.

What type of organizational structure is the company transitioning into? List the basic features of this new structure and the disadvantages that the company may face in future in this new structural arrangement. [RTP Nov 22]

Answer

Samar Electronics Limited transitioning into **network structure**. It is a newer and somewhat more radical organisational design. Its essential features are as follows:

- a) It is termed as “non-structure” as it eliminates in house functions and outsources many of them.
- b) An organisation organised in this manner is often called “virtual organisation” because it is composed of a series of project groups or collaborations linked by constantly changing non- hierarchical, cob-web like structures.
- c) Network structures become 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.
- d) Instead of having salaried employees, it may contract with people for a specific project or length of time.
- e) Long term contracts with suppliers and distributors replace services that company could provide for itself.

However, network structure does have following disadvantages that the company may face in future:

1. The availability of numerous potential partners can be a source of trouble.
2. Co-ordination among the functioning of business partners is perhaps, the biggest problem for the management in the networking structure.
3. Employees may lack the level of confidence necessary to participate actively in organisation sponsored learning experiences.

Concept Problem 40

Write short note on Strategic Business Unit (SBU). [RTP Nov 22]

Answer

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:

- a) 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.
- b) It has its own set of competitors.
- c) It has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

Benefits of SBUs:

- i) Establishing coordination between divisions having common strategic interest.
- ii) Facilitate strategic management and control.
- iii) Determine accountability at the level of distinct business units.
- iv) Allow strategic planning to be done at the most relevant level within the total enterprise.
- v) Make the task of strategic review by top executives more objective and more effective.

vi) 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.

Concept Problem 41

Anshuman was a CEO at a struggling company. Despite the challenges, he believed in the potential of his team and was determined to turn the company around. He started by communicating his vision to his employees. He encouraged them to think outside the box, take risks and be creative. He also invested in training programs to help employees develop new skills. He regularly recognized and rewarded employees for their hard work, which increased their job satisfaction and commitment. As a result, the company began to see positive changes.

Identify and discuss the leadership style adopted by Anshuman? [RTP May 23]

Answer

Being a CEO of a struggling company, Anshuman has adopted 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.

Anshuman believed in the potential of his team. He started by communicating his vision to his employees. He encouraged them to think outside the box, take risks and be creative. He also invested in training programs to help employees develop new skills. He regularly recognized and rewarded employees for their hard work, which increased their job satisfaction and commitment.

Concept Problem 42

HQ is a service company. Two years back, the company hired a reputed management consultant to formulate its strategy. The consultant recommended an aggressive expansion plan. Now, in an internal review of the company, it finds that many of the suggestions are not even fully considered.

Which part of strategic management process is missing in HQ?

Answer

Strategy implementation is missing in HQ. Implementation is the managerial exercise of putting a chosen strategy into action. It deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results.

Strategic implementation is concerned with translating a strategic decision into action, which presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems.

It is crucial to realize the difference between the formulation and implementation because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent.

Concept Problem 43

Is strategy formulation an intellectual process? How is it different from strategy implementation?

Or

Distinguish between Strategy Formulation and Strategy Implementation. [MTP May 23]

Answer

Yes, strategy formulation is primarily an intellectual process. It is based on strategic decision-making which requires analysis and thinking. Although inextricably linked, strategy implementation is fundamentally different from strategy formulation in the following ways:

Strategy Formulation	Strategy Implementation
Strategy formulation focuses on effectiveness.	Strategy implementation focuses on efficiency.
Strategy formulation is primarily an intellectual process.	Strategy implementation is primarily an operational process.
Strategy formulation requires conceptual intuitive and analytical skills.	Strategy implementation requires motivation and leadership skills.
Strategy formulation requires coordination among the executives at the top level.	Strategy implementation requires coordination among the executives at middle and lower levels.

Concept Problem 44

Discuss three methods for reassigning new patterns of behavior as proposed by H.C. Kellman.

Answer

H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

- a) **Compliance:** It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.
- b) **Identification:** Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.
- c) **Internalization:** Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment. They have given freedom to learn and adopt new behavior in order to succeed in the new set of circumstances.

Concept Problem 45

Connect Group was one of the leading makers of the mobile handsets till a few years ago and which went at the bottom of the heap. Connect Group didn't adapt to the current market trends which eventually lead to its downfall. Which would have helped Connect Group to change, adapt and survive? Explain the steps to initiate the change.

Or

Specify the steps that are needed to introduce strategic change in an organization. [MTP May 22]

Or

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. [ICAI May 23]

Answer

Connect Group has to do strategic change for its survival. 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. Unless companies embrace change, they are likely to be freeze and unless companies prepare to deal with sudden, unpredictable, discontinuous, and radical change, they are likely to be extinct.

Three steps for initiating strategic change are:

- 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 the 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.

Concept Problem 46

Elaborate the interrelationship between strategy formulation and implementation.

Answer

Strategy implementation is the managerial exercise of putting a chosen strategy into place. Strategy execution deals with supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a decision into action.

It involves allocation of resources to new courses of action that need to be undertaken. There may be a need of adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system

It is crucial to realize the difference between the formulation and implementation because both require very different skills. A business organization will be successfully only when the strategy formulation is sound and implementation is excellent

Concept Problem 47

Dr. Raman has been running a nursing home for about twenty-two years now, and has gained enormous name for his benevolence in Balram district of Chhattisgarh. Recently, his daughter, Dr. Radhika completed her medicine degree from the United States of America and returned to her hometown to be a part of her father's practice. She has been given the baton to promote modern medicine and retain the local skilled youth in their practice. However, their nursing home's skilled youth has been more inclined to E-Commerce employment opportunities. Dr. Radhika has taken it as a challenge to imbibe the very essence of service in them, by being employed as nurses and caretakers of the ill. This shall be very crucial in growing the practice as desired.

Which of the following phases of Kurt Lewin's Model of Change will be most challenging for Dr. Radhika to strategically positioning her father's nursing home?

Answer

Kurt Lewin's Model of Change proposes three phases of change process to make the change lasting. They are Compliance, Identification and Internalization.

For Dr. Radhika, Compliance and Identification will not a big challenge, as her father has been one of the most sought-after personalities serving the ill in their district. And her return from the USA to serve her country, especially her district, will help the workforce identify her as a role model and there would actually be no need for compliance, i.e., Reward and Punishment for bringing about a change.

However, the new lucrative E-Commerce employment opportunities will have to be fought through Internalization, i.e., internal changing of the individual's thought process, to give them freedom to learn and succeed. Thus, Internalization will be the most challenging phase.

Concept Problem 48

Why is Strategic Control important for organizations?

Answer

Importance of strategic control: Strategic control is an important process that keeps organisation on its desired path. It involves evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments.

Strategic control focuses on the dual questions of whether:

- a) the strategy is being implemented as planned; and
- b) the results produced by the strategy are those intended.

Concept Problem 49

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

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:

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

Concept Problem 50

Glassware Ltd. is about to go through a significant restructuring. The strategic change involves moving from a decentralized to a centralized structure. This will help Glassware avoid duplication of support activities and lower its costs.

The management have held the first staff briefing in which they went to great lengths to explain that the change was necessary to equip the company to face future competitive challenges. Identify and explain the current stage of Glassware Ltd. from the Lewin's three-stage model of change? [RTP May 22]

Answer

Glassware Ltd. is currently in the 'unfreezing' stage, where management is attempting to explain the need for change in an attempt to maximize buy-in by employees and reduce the amount of resistance.

Unfreezing the situation: The process of unfreezing simply makes the individuals 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 new ideas throughout the organization.

Concept Problem S1

"Strategy formulation and strategy implementation are intertwined and linked with each other". Elucidate this statement with suitable arguments. [ICAI May 22]

Answer

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.

Concept Problem S2

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 company, what stages will you follow for developing & executing the new strategy? [ICAI May 22]

Answer

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.

Concept Problem 53

ABC Ltd. is a shoe manufacturing company. The strategic manager of ABC Ltd. is Ms. Suman. Ms. Suman hired the best designers she could find online for her ethnic shoe brand but later she found that the designers were better at leather designs. Identify and explain linkage in the given situation as she had to change her strategy basis the actual resources she had? [MTP Nov 22] [RTP Nov 23]

Answer

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.

In the given situation Ms. Suman has to follow **Backward Linkages** as she had to change her strategy basis the actual resources she had. 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.

Concept Problem 54

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 complete 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 prioritise 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.

- Identify the leadership style employed by Ramesh and Suresh.
- What are the conditions/situations that make such leadership styles more appropriate?
- Discuss the characteristics of the leadership styles. [ICAI May 23]

Answer

- Ramesh adopted transactional leadership style, while Suresh adopted transformational leadership style.
- 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.

- 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.

Concept Problem 55

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. [ICAI May 23]

Answer

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.

- b) *Strategic planning assesses the impact of environmental variables.*
- c) *Strategic planning takes a holistic view of the organisation.*
- d) *Strategic planning develops overall objectives and strategies.*
- e) *Strategic planning is concerned with the long-term success of the organisation.*
- f) *Strategic planning is a senior management responsibility.*

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