

**CA INTER**



**NEW SYLLABUS**









# **STRATEGIC MANAGEMENT**

## **Q&A Book**

*CA Rishabh Jain*



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## Acknowledgments

There are people in this world, some of them so wonderful, that made this book become a reality that you are holding in your hand. I would like to thank all of them.

### SPECIAL THANKS TO

Mr. Sharad Patil who has taken immense effort in creating this Book.

&

Mr. Vikas Ingawale who has taken immense efforts in Designing this book in the most creative way.

"Alone we can do so little,  
together we can do so much"



## PREFACE

Dear students,

It gives me immense joy and pleasure to present a completely updated **CA Inter - Strategic Management Q and A Book** strictly as per **ICAI New Syllabus**.

In this Updated QnA Module we have covered the following:-

- 1) All ICAI Module questions as per New ICAI Syllabus
- 2) Old Syllabus Exam paper questions with ICAI suggested answers
- 3) Old syllabus RTP and MTP questions with suggested answers which are still relevant for new syllabus chapters.

This book was prepared with the aim of making sure that anyone who reads this gets not only a **substantial coverage over the ICAI syllabus** but also, **resounding confidence over their practical applicability** when you are working in the corporate world.

Having been a professor for 10 years and counting, I have observed that, for you to succeed in exam and your professional career you need a great understanding of the concept and its real-life application. Majority students get stuck in the rat race of just passing the exam by any means, this may help you to pass a competitive exam but not in the exam of your professional life.

I have worked for more than 6 years in Big 4's like PWC and Deloitte in my initial years of professional career and the lessons learned during that time has inspired me to ensure that my students get a "Practical Approach" to this so called "Theoretical world of Strategic Management".

The journey of a Chartered Accountant is not a rapid T-20 match. It is equivalent to a 5-day test match, if you will. Rather than rushing and blasting through your preparation, it is crucial to be consistent and disciplined. My cricket coach once said to me something that has stuck with me since my college days - 'Wicket pe bane raho, runs aapne aap ban jaayenge!'

I wish you all the best and hope that you be greatly benefited from this book!

Happy Learning,

Regards

**CA Rishabh Jain**

rishabhrgholchha@gmail.com

www.ekatvamacademy.com

**'Failure will never overtake me if my determination to succeed is strong enough!'**

**- Late Dr. A P J Abdul Kalam**



*With the Blessings of  
My Dear Parents,  
Brother, Sister  
and Wife*

*Dedicated to All  
My  
Beloved Students*



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**Strategic Management**  
**Q&A Module**  
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*RJ = Practical Insight into Theoretical World*





# CHAPTER -1

## INTRODUCTION TO STRATEGIC MANAGEMENT



## Multiple Choice Questions

- 1) Strategy is a game plan used for which of the following?
  - a) To take market position
  - b) To attract and satisfy customers
  - c) To respond to dynamic and hostile environment
  - d) All of the above
- 2) Which of the following is correct?
  - a) Strategy is always pragmatic and not flexible
  - b) Strategy is not always perfect, flawless and optimal
  - c) Strategy is always perfect, flawless and optimal
  - d) Strategy is always flexible but not pragmatic
- 3) Strategy is-
  - a) Proactive in action
  - b) Reactive in action
  - c) A blend of proactive and reactive actions
  - d) None of the above
- 4) Reactive strategy can also be termed as-
  - a) Planned strategy
  - b) Adaptive strategy
  - c) Sound strategy
  - d) Dynamic strategy
- 5) Formulation of strategies and their implementation in a strategic management process is undertaken by-
  - a) Top level executives
  - b) Middle level executives
  - c) Lower level executives
  - d) All of the above

- 6) Which of the following are responsible for formulating and developing realistic and attainable strategies?
- a) Corporate level and business level managers
  - b) Corporate level and functional level managers
  - c) Functional managers and business level managers
  - d) Corporate level managers, business level managers and functional level Managers
- 7) Which of the following managers' role is to translate the general statements/ strategies into concrete strategies of their individual businesses-
- a) Supervisor
  - b) Functional Manager
  - c) CEO of the company
  - d) All of the above
- 8) Which statement should be created first and foremost?
- a) Strategy
  - b) Vision
  - c) Objectives
  - d) Mission
- 9) Strategic management enables an organization to \_\_\_\_\_, instead of companies just responding to threats in their business environment.
- a) be proactive
  - b) determine when the threat will subside
  - c) avoid the threats
  - d) defeat their competitors
- 10) Read the following three statements:
- (i) Strategies have short-range implications.
  - (ii) Strategies are action oriented.
  - (iii) Strategies are rigidly defined.
- From the combinations given below select an alternative that represents statements that are true:
- a) (i) and (ii)
  - b) (i) and (iii)
  - c) (ii) and (iii)
  - d) (i), (ii) and (iii)



## RJ = Practical Insight into Theoretical World

- 11) What involves formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives?
- Strategy formulation
  - Strategy evaluation
  - Strategy implementation
  - Strategic management
- 12) Strategic management allows an organization to be more
- Authoritative
  - Participative
  - Commanding
  - Proactive

### Answers to Multiple Choice Questions

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

## Questions from ICAI Study Material

### Scenario Based Questions

**Question 1:****(ICAI SM)**

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:**

- 1) 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.
- 2) 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.
- 3) 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.
- 4) It is designed to help potential shareholders and investors understand the purpose of the company: Mr. Raj may identify mission in the following lines:
  - a) To be in the business of cosmetics to enhance the lives of people, give them confidence to lead.
  - b) To protect skin from harmful elements in environment and sun rays.
  - c) To produce herbal cosmetics using natural ingredients.

**Question 2:****(ICAI SM)**

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?





### RJ = Practical Insight into Theoretical World

#### Answer:

**Yummy foods is proactive in its approach. On the other hand, Tasty Food is reactive.**

- 1) A proactive strategy is a planned strategy whereas reactive strategy is an adaptive reaction to changing circumstances.
- 2) 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.
- 3) If organisational resources permit, it is better to be proactive rather than reactive. Being proactive in aspects such as introducing new products will give you an advantage in the mind of customers.
- 4) 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.

#### **Question 3:**

**(ICAI SM) / (RTP Nov 20)**

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:**

- 1) 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.
- 2) 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.



- 3) Although, strategic management is a time-consuming process, he should continue to manage strategically. The challenging times require more efforts on his part.
- 4) 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.
- 5) 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.

**Question 4:**

(ICAI SM)

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:**

- 1) Functional managers provide most of the information that makes it possible for business and corporate level managers to formulate realistic and attainable strategies. This is so because functional managers like Dharam Singh are closer to the customers/suppliers/ operations than the typical general manager is.
- 2) 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.
- 3) 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.

**Conclusion:**

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.

**Question 5:****(ICAI SM)**

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

**Answer:**

- 1) The role of Chief Executive Officer pertains to corporate level.
- 2) 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.
- 3) **The role of Chief Executive Officer (Top Management/Corporate Level Managers) is to:**
  - a) oversee the development of strategies for the whole organization;
  - b) defining the mission and goals of the organization;
  - c) determining what businesses it should be in;
  - d) allocating resources among the different businesses;
  - e) formulating, and implementing strategies that span individual businesses;
  - f) providing leadership for the organization;

**Descriptive Questions****Question 6:****(ICAI SM)**

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

**Answer:**

- 1) The term '**strategic management**' refers to the **managerial process** of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments were deemed appropriate.
- 2) 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:

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

**Question 7:****(ICAI SM)**

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

**Answer:**

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

- 1) Environment is **highly complex and turbulent**. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.
- 2) Strategic management is a **time-consuming process**. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.

- 3) Strategic management is a **costly process**. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources.
- 4) In a competitive scenario, where all organisations are trying to move strategically, it is **difficult to clearly estimate the competitive responses to a firm's strategies**.

**Question 8:****(ICAI SM)**

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

**Answer:**

- 1) A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) 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.

Question 9:

(ICAI SM)

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

Answer:

- 1) **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.
- 2) 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.
- 3) 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.
- 4) **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.

### Questions from PAST Exam/ RTP / MTP [As per OLD Syllabus]

Question 10:

[ICAI Dec.21]

"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.

Answer:

Each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following the process of strategic management - strategic analysis, formulation and implementation, evaluation and control of strategies.

The major benefits of strategic management are:

a) Proactive instead of reactive:

Strategic management helps Organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

**b) Provides framework for decision making:**

Strategic management provides framework for all the major business decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to achieve.

**c) Pathfinder:**

Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.

**d) Act as a corporate defence:**

Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.

**e) Helps in developing core competencies:**

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

**f) Provides direction:**

The strategic management gives a direction to the company to move ahead. It defines the goals and mission. It helps management to define realistic objectives and goals which are in line with the vision of the company.

**g) Enhancing the longevity:**

Strategic management helps to enhance the longevity of the business with the state of competition and dynamic environment it may not be possible for organisations to survive in long run. It helps the organization to take a clear stand in the related industry and makes sure that it is not just surviving on luck.

**Question 11:****[ICAI July 21]**

'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 ensuring 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.

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) (a) Proactive actions:

A company's current strategy flows from both previously initiated actions and business approaches that are working well enough to merit continuation, as well as newly initiated managerial decisions and actions that strengthen the company's overall position and performance.

Thus, strategy partly is deliberate and proactive, standing as the product of management's analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer's patronage.

- (b) Reactive actions:

However, not every strategic move is the result of proactive planning and deliberate management design. 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.

Hence, partially, a company's strategy is always developed as a reasoned response to unforeseen developments in the business environment as well as the situations within the firm.

- (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.

**Question 12:**

[ICAI Jan 21]

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

**Answer:**

The role of Chief Executive Officer pertains to Corporate level.

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

The role of Chief Executive Officer is to:

- a) oversee the development of strategies for the whole organization;
- b) defining the mission and goals of the organization;
- c) determining what businesses, it should be in;
- d) allocating resources among the different businesses;
- e) formulating, and implementing strategies that span individual businesses;
- f) providing leadership for the organization;

**Question 13:**

(MTP Mar. 22) / (RTP Nov 21)

The presence of strategic management cannot counter all hindrances and always achieve success for an organisation. What are the limitations attached to strategic management?

**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 organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.

- b) Strategic Management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- 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 organisations with limited resources particularly when small and medium organisation create strategies to compete.
- d) In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

**Question 14:**

(RTP May 21)

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 assures 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:**

- 1) Functional managers provide most of the information that makes it possible for business and corporate level managers to formulate realistic and attainable strategies.
- 2) 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.
- 3) 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.
- 4) 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.

## Question 15:

(RTP Nov 20)

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:

- a) 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.
- b) 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.
- c) Although, strategic management is a time-consuming process, he should continue to manage strategically. The challenging times require more efforts on his part.
- d) 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.
- e) 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.

**Question 16:**

(RTP Nov 20)

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

**Answer:****Strategic Vision**

- 1) 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.
- 2) 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.
- 3) **Essentials of a strategic vision**
  - a) The entrepreneurial challenge in developing a strategic vision is to **think creatively about how to prepare a company for the future.**
  - b) Forming a strategic vision is **an exercise in intelligent entrepreneurship.**
  - c) A well-articulated strategic vision **creates enthusiasm among the members of the organization.**
  - d) The best-worded vision statement **clearly illuminates the direction** in which organization is headed.

**Question 17:**

(MTP Mar 22)

Explain briefly the. **key areas in which the strategic planner should concentrate his mind to achieve desired results.**

**Answer:**

A strategic manager defines the strategic intent of the organisation and take it on the path of achieving the organisational 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.

- a) Profitability.
- b) Productivity.
- c) Competitive Position.
- d) Employee Development.
- e) Employee Relations.
- f) Technological Leadership.
- g) Public Responsibility.

## Question 18:

(RTP Nov 20)

What are 'objectives'? What characteristics it must possess to be meaningful?

Answer:

- 1) 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.
- 2) Objectives with strategic focus relate to outcomes that strengthen an organization's overall business position and competitive vitality.
- 3) Objectives, to be meaningful to serve the intended role, must possess the following characteristics:
  - a) Objectives should define the organization's relationship with its environment.
  - b) Objectives should be facilitative towards achievement of mission and purpose.
  - c) Objectives should provide the basis for strategic decision-making.
  - d) Objectives should provide standards for performance appraisal.
  - e) Objectives should be understandable.
  - f) Objectives should be concrete and specific.
  - g) Objectives should be related to a time frame.
  - h) Objectives should be measurable and controllable.
  - i) Objectives should be challenging.
  - j) Different objectives should correlate with each other.
  - k) Objectives should be set within constraints.





# CHAPTER -2

## STRATEGIC ANALYSIS: EXTERNAL ENVIRONMENT



## Multiple Choice Questions

- 1) KSFs stand for:
  - a) Key strategic factors
  - b) Key supervisory factors
  - c) Key success factors
  - d) Key sufficient factors
- 2) Competitive landscape requires the application of-
  - a) Competitive advantage
  - b) Competitive strategy
  - c) Competitive acumen
  - d) Competitive intelligence
- 3) The term PESTLE analysis is used to describe a framework for analyzing:
  - a) Macro Environment
  - b) Micro Environment
  - c) Both Macro and Micro Environment
  - d) None of above
- 4) 'Attractiveness of firms' while conducting industry analysis should be seen in-
  - a) Relative terms
  - b) Absolute terms
  - c) Comparative terms
  - d) All of the above
- 5) What is not one of Michael Porter's five competitive forces?
  - a) New entrants
  - b) Rivalry among existing firms
  - c) Bargaining power of unions
  - d) Bargaining power of suppliers
- 6) Which of the following constitute Demographic Environment?
  - a) Nature of economy i.e. capitalism, socialism, Mixed
  - b) Size, composition, distribution of population, sex ratio
  - c) Foreign trade policy of Government
  - d) Economic policy i.e. fiscal and monetary policy of Government

- 7) All are elements of Macro environment except:
- a) Society
  - b) Government
  - c) Competitors
  - d) Technology
- 8) The emphasis on product design is very high, the intensity of competition is low, and the market growth rate is low in the \_\_\_\_\_ stage of the industry life cycle.
- a) Maturity
  - b) Introduction
  - c) Growth
  - d) Decline

**Answers to Multiple Choice Questions**

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

## Questions from ICAI Study Material

### Scenario Based Questions

Question 1:

(ICAI SM)

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

Answer:

Steps to understand the competitive landscape:

- 1) **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.
- 2) **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.
- 3) **Determine the strengths of the competitors:** What is the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business?
- 4) **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.
- 5) **Put all of the information together:** At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm.

## Question 2:

(ICAI SM)

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:

- 1) 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.
- 2) 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.
- 3) 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.

## Question 3:

(ICAI SM)

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.

- 1) 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.
- 2) Further, other factors that lead to such pressure are:
  - a) Their products are crucial to the buyer and substitutes to the material required for production are not available.
  - b) Suppliers can manipulate switching cost as the brand is in inception stage and making margins are important.
- 3) 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

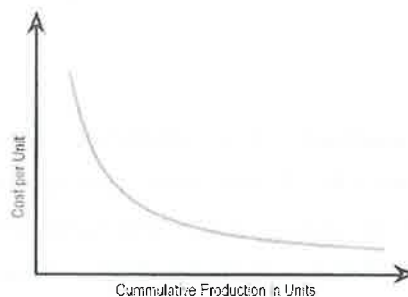
**Question 4:**

**(ICAI SM)**

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

**Answer:**

- 1) Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work.
- 2) Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. It is represented diagrammatically as shown in the next page.



- 3) 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.
- 4) Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.



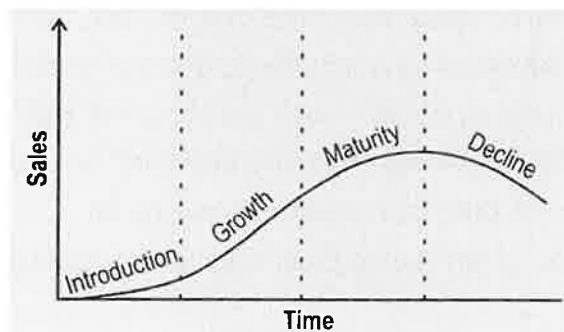
- 5) The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition.

**Question 5:****(ICAI SM)**

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

**Answer:**

- 1) 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.
- 2) 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.
- 3) The second stage of PLC is the growth stage, in which the demand expands rapidly, prices fall, competition increases and market expands.
- 4) 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.
- 5) 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.



**Product Life Cycle**

- 6) PLC can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage.

- 7) 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.
- 8) 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.

**Question 6:****(ICAI SM)**

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

**Answer:**

- 1) 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.
- 2) 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.
- 3) 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.

**Questions from OLD SPAST Exam / RTP /MTP from****Question 7:****(July 21)**

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

**Answer:**

- 1) 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.
- 2) 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.
- 3) Steps to understand the competitive landscape for building competitive advantage are:
  - 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.

## Question 8:

(Nov 20)

Why companies should go global? Mention any five reasons.

Answer:

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

- 1) The first and foremost reason is need to grow. It is basic need of every organisations. Often finding opportunities in the other parts of the globe organisation extend their businesses and globalize their operation.
- 2) There is rapid shrinking of time and distance across the globe because of faster communication, speedier transportation, growing financial flows and rapid technological changes.
- 3) It is being realised that the domestic markets are no longer adequate. The competition present domestically may not exist in some of the international markets.
- 4) There can be varied other reasons such as need for reliable or cheaper source of rawmaterials, cheap labour, etc. Many foreign businesses shift and set up some of their operations to take advantage of availability of vast pool of talent.
- 5) Companies often set up overseas plants to reduce high transportation costs. It may be cheaper to produce near the market to reduce the time and costs involved in transportation.
- 6) When exporting organisations find foreign markets to open up or grow big, they may naturally look at overseas manufacturing plants and sales branches to generate higher sales and better cash flow.
- 7) The rise of services to constitute the largest single sector in the world economy; and regional economic integration, which has involved both the world's largest economies as well as certain developing economies.
- 8) The apparent and real collapse of international trade barriers redefines the roles of state and industry. The trend is towards increased privatization of manufacturing and services sectors, less government interference in business decisions and more dependence on the value-added sector to gain market place competitiveness. The trade tariffs and custom barriers are getting lowered, resulting in increased flow of business.
- 9) Globalization has made companies in different countries to form strategic alliances to ward off economic and technological threats and leverage their respective comparative and competitive advantages.

## Question 9:

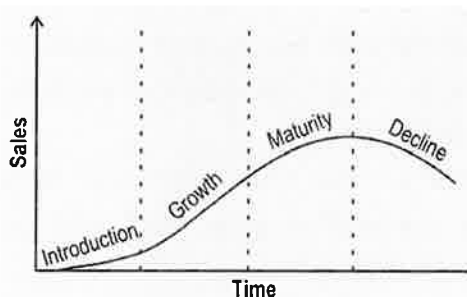
(MTP Apr. 22)

Write short note on "Phases and significance of Product Life Cycle".

Answer:

Product Life Cycle (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.



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.

- c) For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages.
- d) 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.
- e) In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

**Question 10:**

(RTP May 21)

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.**

- 1) 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).
- 2) 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.
- 3) 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.



## Question 11:

(Dec 21)

What are the factors which determine the nature of rivalry in an industry?

Answer:

- 1) The intensity of rivalry in an industry is a significant determinant of an industry's attractiveness and profitability.
- 2) The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus, can directly affect the profitability.
- 3) "The more intensive the rivalry, the less attractive is the industry". Rivalry among competitors tends to be cutthroat and an industry's profitability is low when;
  - a) An industry has no clear leader. Therefore, continuous war for leadership.
  - b) Competitors in the industry are numerous.
  - c) Competitors operate with high fixed costs. Thus, aiming for better Return on Investment with more fierce tactics.
  - d) Competitors face high exit barriers, and therefore, continue to fight for market share.
  - e) Competitors have little opportunity to differentiate their offerings.
  - f) The industry faces slow or diminished growth.

## Question 12:

(RTP May 22)

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

Answer:

Five forces model of Michael Porter is a popular 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 forces as follows:

- 1) **Threat of new entrants:** New entrants place a limit on prices and affect the profitability of existing players. The new capacity and product range the new entrants bring increases competitive pressure.
- 2) **Bargaining power of customers:** The bargaining power of the buyers influences not only the prices that the producer can charge but also influence costs and investments of the producer. This force will become heavier depending on the possibilities of the buyers forming groups or cartels, particularly in case of industrial products.
- 3) **Bargaining power of suppliers:** Often suppliers can exercise considerable bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, can affect industry attractiveness and profitability.



- 4) **Rivalry among current players:** 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. Substitute products offering a price advantage and/or performance improvement to the consumer can have significant impact.



# CHAPTER -3

## STRATEGIC ANALYSIS: INTERNAL ENVIRONMENT



## Multiple Choice Questions

- 1) The goal of SWOT analysis is to \_\_\_\_\_ the organization's opportunities and strengths while \_\_\_\_\_ its threats and \_\_\_\_\_ its weaknesses.
  - a) avoid; neutralizing; correcting
  - b) exploit; neutralizing; correcting
  - c) avoid; capitalizing; neutralizing
  - d) exploit; avoiding; ignoring
- 2) SWOT analysis is an evaluation of the organization's \_\_\_\_\_ strengths and Weaknesses and its \_\_\_\_\_ opportunities and threats.
  - a) external; internal
  - b) internal; internal
  - c) external; external
  - d) internal; external
- 3) External opportunities and threats are usually:
  - a) the minor cause of organizational demise or success
  - b) least important for CEOs and the board of directors
  - c) not as important as internal strengths and weaknesses
  - d) largely uncontrollable activities outside the organization
- 4) The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon:
  - a) Durability, reliability, transferability, approximately
  - b) Appropriability, durability, transferability, imitability
  - c) Transferability, imitability, reliability, approximately
  - d) Imitability, durability, reliability, appropriability
- 5) Internal \_\_\_\_\_ are activities in an organization that are performed especially well.
  - a) Opportunities
  - b) Competencies
  - c) Strengths
  - d) Management

- 6) 'Strategic group mapping' helps in-
- Identifying the strongest rival companies
  - Identifying weakest rival companies
  - Identifying weakest and strongest rival companies
  - None of the above
- 7) In Michael Porter's generic strategy \_\_\_\_\_ emphasizes producing standardized products at a very low per unit-cost for consumers who are price sensitive.
- Cheap leadership
  - Inferior product leadership
  - Cost leadership
  - Cost benefit
- 8) Differentiation Strategy can be achieved by following measures:
- Match products with tastes and preferences of customers.
  - Elevate the performance of the product.
  - Rapid product innovation
- Which of the above is true:
- (1) and (2)
  - (1) and (3)
  - (2) and (3)
  - (1), (2) and (3)
- 9) What are the three different bases given by Michael Porter's Generic Strategies to gain competitive advantage?
- differentiation, integration and compensation
  - integration, focus and differentiation
  - compensation, integration and focus
  - cost leadership, differentiation and focus
- 10) A firm successfully implementing a differentiation strategy would expect:
- Customers to be sensitive to price increases.
  - To charge premium prices.
  - Customers to perceive the product as standard.
  - To automatically have high levels of power over suppliers

#### Answers to Multiple Choice Questions:

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

## Questions from ICAI Study Material

### Scenario Based Questions

Question 1:

(ICAI SM)

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

Answer:

- 1) 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.
- 2) 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.
- 3) A number of entities and processes are involved in these events from various industries offering opportunities and threats to them.
- 4) An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand, a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.
- 5) An opportunity is also a threat in case internal weaknesses do not allow organization to take their advantage in a manner rival can.
- 6) It will offer opportunity and threats to the following:
  - a) Opportunities
    - (i) Stadia.
    - (ii) Manufacturers of sports goods.
    - (iii) Media Industry - Sports channels / television, advertisers.
    - (iv) Hotel Industry linking events with their offerings.

## b) Threats

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

**Question 2:****(ICAI SM)**

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

**Answer:**

- 1) A tool to study the market positions of rival companies by grouping them into like positions is strategic group mapping.
- 2) Grouping competitors is useful when there are many competitors such that it is not practical to examine each one in-depth.
- 3) 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.
- 4) 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.



## Question 3:

(ICAI SM) / (Jan 21)

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

Answer:

- 1) 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.
- 2) 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.
- 3) 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:
  - a) **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.
  - b) **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.
  - c) **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.



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

**Question 4:**

(ICAI SM) / (RTP Nov 20)

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 personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by Luxury Jet.

**Answer:**

- 1) The Airlines industry faces stiff competition. However, Luxury Jet has attempted to create a niche market by adopting focused differentiation strategy.
- 2) 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.
- 3) The option of charter flights provided several advantages including, flexibility, privacy, luxury and many a times cost saving.
- 4) 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.

**Question 5:**

(ICAI SM)

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

**Answer:**

- 1) 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.
- 2) 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.
- 3) 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.
- 4) The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.

**Question 6:****(ICAI SM)**

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

**Answer:**

Considering the generic strategies of Porter there are three different bases: cost leadership, differentiation and focus. Sohan and Ramesh are contemplating pricing for their product. Sohan is trying to have a low price and high volume is thereby trying for cost leadership. Cost leadership emphasizes producing standardised products at a very low per unit cost for consumers who are price sensitive.

Ramesh desires to create perceived value for the product and charge higher prices. He is trying to adopt differentiation. Differentiation is aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price insensitive.

**Question 7:****(ICAI SM)**

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:

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

**Question 8:****(ICAI SM)**

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.

- 1) 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.
- 2) 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.
  - a) **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.
  - b) **Buyers:** They do not negotiate for price as they get special features and also, they have fewer options in the market.
  - c) **Suppliers:** Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.
  - d) **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.
  - e) **Substitutes:** Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

**Question 9:****(ICAI SM)**

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:**

- 1) Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.
- 2) 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.
- 3) Rohit Patel can build competencies in the areas of:
  - a) Developing personal and cordial relations with the customers.
  - b) Providing home delivery with no additional cost.
  - c) 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.
  - d) Having extended working hours for convenience of buyers.
  - e) Providing easy credit or a system of monthly payments to the patients consuming regular medicines.

**Question 10:****(ICAI SM)**

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

**Answer:**

- 1) 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.
- 2) In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses.
- 3) A core competency for a firm is whatever it does is highly beneficial to the organisation. 'Value for Money' is the leader on account of its ability to keep costs low.
- 4) The cost advantage that 'Value for Money' has created for itself has allowed the retailer to price goods lower than competitors.
- 5) 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.

## Descriptive Questions

Question 11:

(ICAI SM)

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?

Answer:

- 1) 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.
- 2) The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.
  - a) **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors
  - b) **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
  - c) **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
  - d) **Threat:** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.
- 3) 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).
- 4) Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment.
- 5) Key reasons for SWOT analysis are:
  - a) It provides a logical framework.
  - b) It presents a comparative account.
  - c) It guides the strategist in strategy identification.

## Questions from PAST Exam/ RTP / MTP [As per OLD Syllabus]

Question 12:

(July 21)

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 identify the market positions of rival companies by grouping them into like positions is **strategic group mapping**. 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 are 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.

**Question 13 (Jan 21)**

**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:**

- 1) 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.
- 2) 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.
- 3) According to C.K. Prahalad and Gary Hamel, major core competencies are identified in following three areas:
  - a) **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.

- b) **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.
- c) **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.

**Question 14:**

(Dec 21)

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

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

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

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





Answer:

**XXP India Ltd. has planned for Differentiation Strategy.**

- 1) 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.
- 2) The company is planning to launch various innovative product designs and offer loyalty programmes to lure customers.
- 3) 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.

**4) 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.

- a) **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.
- b) **Buyers** - They do not negotiate for price as they get special features, and they have fewer options in the market.
- c) **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.
- d) **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.
- e) **Substitutes** - Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

**Question 15:**

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.

**Answer:**

Spacetek Pvt. Ltd. company has adopted Focus strategy which is one of the Michael Porter's Generic strategies.

- 1) 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.
- 2) 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.
- 3) **Advantages of Focus Strategy**
  - a) Premium prices can be charged by the organizations for their focused product/services.
  - b) Due to the tremendous expertise about the goods and services that organizations following focus strategy offer, rivals and new entrants may find it difficult to compete.
- 4) **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.

**Question 16:****(Nov 20)**

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:

**ABC Ltd. has opted Differentiation Strategy.**

- 1) 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.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) The uniqueness can be associated with product design, brand image, features, technology, and dealer network or customer service.
- 6) **Achieving Differentiation Strategy:**

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

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

**Question 17:****(MTP Mar. 22)**

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?

**Answer:**

- 1) 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.
- 2) Moneyland 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.
- 3) By maintaining high quality levels, it will still be able to charge a premium for its services. Thus, the strategy adopted by Moneyland Ltd. Bank is Focused Differentiation.
- 4) 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.

**Question 18:**

(RTP Nov 21)

Explain in brief the various basis of differentiation strategy.

**Answer:**

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

- 1) **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.
- 2) **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.
- 3) **Organisation:** Organisational 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.

**Question 19:**

(RTP May 21)

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

**Answer:**

- 1) 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.
- 2) Accordingly, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits.
- 3) 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.
- 4) To achieve cost leadership, following are the actions that could be taken:
  - a) Forecast the demand of a product or service promptly.
  - b) Optimum utilization of the resources to get cost advantages.
  - c) Achieving economies of scale leads to lower per unit cost of product/service.
  - d) Standardisation of products for mass production to yield lower cost per unit.
  - e) Invest in cost saving technologies and try using advance technology for smart working.
  - f) Resistance to differentiation till it becomes essential.

**Question 20:**

(RTP Nov 20)

Distinguish between Cost Leadership and Differentiation Strategies.

**Answer:**

- 1) Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive.
- 2) Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive.
- 3) 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.
- 4) 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.
- 5) A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty.



# CHAPTER - 4

## STRATEGIC CHOICES



## Multiple Choice Questions

- 1) Which strategy is implemented after the failure of turnaround strategy?
  - a) Expansion strategy
  - b) Diversification strategy
  - c) Divestment strategy
  - d) Growth strategy
  
- 2) Retrenchment strategy in the organization can be explained as
  - a) Reducing trenches (gaps) created between individuals.
  - b) Divesting a major product line or market.
  - c) Removal of employees from job through the process of reorganization.
  - d) Removal of employees from job in one business to relocate them in other business.
  
- 3) An organisation diversifies in backward sequence in the product chain and enters specific product/process to be used in existing products. It is:
  - a) Forward diversification.
  - b) Vertical diversification.
  - c) Horizontal diversification.
  - d) Reactive diversification.
  
- 4) Corporate strategy includes:
  - (i) expansion and growth, diversification, takeovers and mergers
  - (ii) Vertical and horizontal integration, new investment and divestment areas
  - (iii) determination of the business lines

From the combinations given below select a correct alternative:

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



- 6) Stability strategy is a \_\_\_\_\_ strategy.
- SBU level
  - Corporate level
  - Business level
  - Functional level
- 7) Conglomerate diversification is another name for which of the following?
- Related diversification
  - Unrelated diversification
  - Portfolio diversification
  - Acquisition diversification
- 8) Diversification primarily helps to:
- Reduce competition
  - Reduce risk
  - Reduce taxes
  - Reduce costs
- 9) If suppliers are unreliable or too costly, which of these strategies may be appropriate?
- Horizontal integration
  - Backward integration
  - Market penetration
  - Forward integration

#### Answers to Multiple Choice Questions

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

## Questions from ICAI Study Material

### Scenario Based Questions

Question 1:

(ICAI SM)

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 strategic choices being suggested by the two brothers with reference to the payoffs and the risks involved.

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.

- 1) In conglomerate diversification, the new businesses/ products are disjointed from the existing businesses/products in every way; it is an unrelated diversification.
- 2) 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.
- 3) 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.
- 4) 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.

- 5) 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.
- 6) 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.

**Question 2:**

(ICAI SM)

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 such 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 need to be taken to implement the strategic choice adopted by Shayamli?

**Answer:**

- 1) 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.
- 2) 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.
- 3) 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.
- 4) A workable action plan for turnaround would involve:
  - a) **Stage One - Assessment of current problems:** In the first step, assess the current problems and get to the root causes and the extent of damage.
  - b) **Stage Two - Analyze the situation and develop a strategic plan:** Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions.

- c) **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.
- d) **Stage Four - Restructuring the business:** If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.
- e) **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.

**Question 3:****(ICAI SM)**

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:**

- 1) 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.
- 2) Backward integration is a step towards, creation of effective supply by entering business of input providers.
- 3) 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.

**Question 4:****(ICAI SM)**

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.

- 1) The strategy is suitable in case of issues such as:
  - a) Persistent negative cash flow.
  - b) Uncompetitive products or services
  - c) Declining market share
  - d) Deterioration in physical facilities
  - e) Overstaffing, high turnover of employees, and low morale
  - f) Mismanagement
- 2) 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.
- 3) 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.
- 4) 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.

**Question 5:****(ICAI SM)**

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.**

- 1) 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.
- 2) 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.

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

**Question 6:****(ICAI SM)**

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:
  - Invest in new product development and switchover to the new technology. Atrix Ltd. also need time to invest in emerging new technology.
  - They can acquire or takeover a competitor provided they have or are able to generate enough financial resources.
  - They may also consider unrelated growth and identify other areas for expansion. This will enable Atrix Ltd. to spread their risks.
  - 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

Question 7:

(ICAI SM)

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

**Answer:**

- 1) Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units.
- 2) In the early 1970's the Boston Consulting Group developed a model for managing portfolio of different business units or major product lines.
- 3) The BCG growthshare matrix facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.
- 4) 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.
- 5) In the matrix:
  - a) The vertical axis represents market growth rate and provides a measure of market attractiveness.
  - b) 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 Rate	High	<b>Stars</b>	<b>Question Marks</b>
	Low	<b>Cash Cows</b>	<b>Dogs</b>

**BCG Matrix**

- 6) 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 organisations 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 minimised by means of divestment or liquidation.
- 7) The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.
- Build with the aim for long-term growth and strong future.
  - Hold or preserve the existing market share.
  - Harvest or maximize short-term cash flows.
  - Divest, sell or liquidate and ensure better utilization of resources elsewhere. Thus, BCG matrix is a powerful tool for strategic planning analysis and choice.

**Question 8:****(ICAI SM)**

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	Percentage Market Share	Percentage Industry Growth rate
A	6 crore	48	120 lakh	48	80	+15
B	4 crore	32	50 lakh	20	40	+10
C	2 crore	16	75lakh	30	60	-20
D	50 lakh	4	5 lakh	2	5	-10
Total	12.5 crore	100	250 lakh	100		

**Answer:**

- 1) Using the BCG approach, a company classifies its different businesses on a two dimensional growth-share matrix.
- 2) 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.
- 3) 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	<b>Product A</b> [80% Market Share + 15% Growth Rate] <b>Stars</b>	<b>Product B</b> [40% Market Share + 10% Growth Rate] <b>Question Marks</b>
	Low	<b>Product C</b> [60% Market Share - 20% Growth Rate] <b>Cash Cows</b>	<b>Product D</b> [05% Market Share - 10% Growth Rate] <b>Dogs</b>

- a) Product A is in best position as it has a high relative market share and a high industry growth rate.
- b) On the other hand, product B has a low relative market share, yet competes in a high growth industry.
- c) 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.
- d) Product D is in the worst position as it has a low relative market share and competes in an industry with negative growth rate.

**Question 9:****(ICAI SM)**

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

**Answer:**

- 1) 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 upon its markets in new or existing products in both new and existing markets.

2) 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

- 3) 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.
- 4) It can adopt penetration, product development, market development or diversification simultaneously for its different products.
  - a) 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.
  - b) 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.
  - c) 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.
  - d) 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.
- 5) 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.

## Question 10:

(ICAI SM)

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 a 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 organisation 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 products 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.

## Questions from PAST Exam/ RTP / MTP [As per OLD Syllabus]

Question 11:

(Dec 21)

"There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive". Discuss.

Answer:

These are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are:

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

Question 12:

(Dec 21)

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

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

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

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

- 1) **Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Having a strategic partner who is well-known and respected also helps add legitimacy and creditability to a new venture.

- 2) **Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.
- 3) **Strategic:** Rivals can join together to cooperate instead of competing with each other. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.
- 4) **Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically influential partners may also help improve your own influence and position.

**Question 13:****(July 21)**

The CEO of a textile mill is convinced that his loss-making company can be turned around. Suggest an action plan for a turnaround to the CEO.

**Answer:**

A workable action plan for turnaround of the textile mill would involve:

- 1) **Stage One - Assessment of current problems:** In the first step, assess the current problems and get to the root causes and the extent of damage.
- 2) **Stage Two - Analyze the situation and develop a strategic plan:** Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions after analyzing strengths and weaknesses in the areas of competitive position.
- 3) **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.
- 4) **Stage Four - Restructuring the business:** If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.



- 5) **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.

**Question 14:**

(Jan 21)

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:**

- 1) It is advisable that divestment strategy should be adopted by X Pvt. Ltd.
- 2) 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.
- 3) 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.
- 4) 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.

**Question 15:**

(RTP Nov 21)

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:**

- 1) 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.
- 2) 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.
- 3) 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.
- 4) **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.
- 5) 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.
- 6) 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.

**Question 16:**

(RTP May 21)

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

**Answer:**

- 1) Stability Strategies, as name suggests, are intended to safeguard the existing interests and strengths of business. It involves organisations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on.
- 2) A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in same products and services.

- 3) 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.
- 4) 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.
- 5) Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success.
- 6) 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.

**Question 17:**

(RTP Nov 20)

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:

- a) **Stage One - Assessment of current problems:** In the first step, assess the current problems and get to the root causes and the extent of damage.
- b) **Stage Two - Analyze the situation and develop a strategic plan:** Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions.
- c) **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.

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

**Question 18:**

(MTP Mar. 22)

Sky chemical industry intends to grow its business. Advise the company on the available options using Ansoff's product market growth matrix.

**Answer:**

- 1) 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 upon its markets in new or existing products in both new and existing markets.
- 2) 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**

- 3) Sky chemical industry can adopt market penetration, product development, market development or diversification simultaneously for its different products.
  - a) **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.
  - b) **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.
  - c) **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.

- d) **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.
- 4) 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.

**Question 19:**

(RTP May 22)

**Explain the role of ADL Matrix in assessing competitive position of a firm.**

**Answer:**

- 1) The ADL matrix has derived its name from Arthur D. Little which is a portfolio analysis method based on product life cycle.
- 2) 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.
- 3) 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 h
  - 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.



# CHAPTER - 5

## STRATEGY IMPLEMENTATION AND EVALUATION



## Multiple Choice Questions

- 1) \_\_\_\_\_ leadership style may be appropriate in turbulent environment.
  - a) Transactional
  - b) Transformational
  - c) Autocratic
  - d) None of these
  
- 2) An organizational structure with constricted middle level is:
  - a) Divisional structure
  - b) Network structure
  - c) Hour Glass structure
  - d) Matrix structure
  
- 3) 3. You are the head of operations of a company. When you focus on total or aggregate management functions in the sense of embracing the integrated activities of a complete department et al, you are practicing: -
  - a) Strategic Control
  - b) Management control
  - c) Administrative Control
  - d) Operations Control
  
- 4) Which of the following would be chosen by the core strategist to implement operational control: -
  - a) Premise Control
  - b) (b Special Alert Control
  - c) Implementation Control
  - d) Budgetary Control
  
- 5) Compliance, Identification and Internalization are the three processes involved in:
  - a) Refreezing
  - b) Defreezing
  - c) Changing behavior patterns
  - d) Breaking down old attitudes

6) Which one is NOT a type of strategic control?

- a) Operational control
- b) Strategic surveillance
- c) Special alert control
- d) Premise control

#### Answers to Multiple Choice Questions

1) (b)	2) (c)	3) (b)	4) (d)	5) (c)	6) (a)
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### Questions from ICAI Study Material

#### Scenario Based Questions

Question 1:

(ICAI SM) / (MTP Apr 22)

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

**Answer:**

Ramesh is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities.

- 1) 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.
- 2) 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.

- 1) 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.



- 2) 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.

**Question 2:****(ICAI SM)**

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

**Answer:**

Leading change has to start with diagnosing the situation and then deciding which of several ways to handle it.

Managers have five leadership roles to play in pushing for good strategy execution:

- Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.
- 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
- 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.
- Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.
- Pushing corrective actions to improve strategy execution and overall strategic performance.

**Question 3:****(ICAI SM)**

KaAthens Ltd., a diversified business entity having business operations across the globe. The company leadership has just changed as Mr. D. Bandopadhyay handed over the pedals to his son Aditya Bandopadhyay, due to his poor health. Aditya is a highly educated with an engineering degree from IIT, Delhi. However, being very young he is not clear about his role and responsibilities, In your view, what are the responsibilities of Aditya Bandopadhyay as CEO of the company.

**Answer:**

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

A Strategic leader has several responsibilities, including the following:

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

**Question 4:****(ICAI SM)**

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

**Answer:**

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

Thus, the functional structure in the telecom business of Manoj can be as follows:



## Question 5:

(ICAI SM)

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:

- 1) 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.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) Benefits of SBUs:
  - a) Establishing coordination between divisions having common strategic interest.
  - b) Facilitate strategic management and control.
  - c) Determine accountability at the level of distinct business units.
  - d) Allow strategic planning to be done at the most relevant level within the total enterprise.
  - e) Make the task of strategic review by top executives more objective and more effective.
  - f) Help to allocate resources to areas with better opportunities.
- 6) 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.

## Question 6:

(ICAI SM)

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

Answer:

Sanya Private Limited deteriorating performance due to poor implementation of plans that is improper use of resources, undesirable tendencies of the workers, and non-conformance to norms and standards, all point towards weak controls in the organization.

- 1) 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.
- 2) The process of control has the following elements:
  - a) Objectives of the business system which could be operationalized into measurable and controllable standards.
  - b) A mechanism for monitoring and measuring the performance of the system.
  - c) A mechanism:
    - (i) for comparing the actual results with reference to the standards
    - (ii) for detecting deviations from standards and
    - (iii) for learning new insights on standards themselves.
  - d) A mechanism for feeding back corrective and adaptive information and instructions to the system, for effecting the desired changes to set right the system to keep it on course.
- 3) 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

Question 7:

(ICAI SM)

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

Answer:

- 1) 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.
- 2) It is discrete element of the business serving product markets with readily identifiable competitors and for which strategic planning can be concluded.
- 3) 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.
- 4) Advantages of SBU are:
  - a) Establishing coordination between divisions having common strategic interests.
  - b) Facilitates strategic management and control on large and diverse organizations.
  - c) Fixes accountabilities at the level of distinct business units.
  - d) Allows strategic planning to be done at the most relevant level within the total enterprise.
  - e) Makes the task of strategic review by top executives more objective and more effective.
  - f) Helps allocate corporate resources to areas with greatest growth opportunities.

Question 8:

(ICAI SM) / (Nov 20)

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

Answer:

- 1) Divisional structure is that organizational structure which is based on extensive delegation of authority and built on division basis.
- 2) 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.

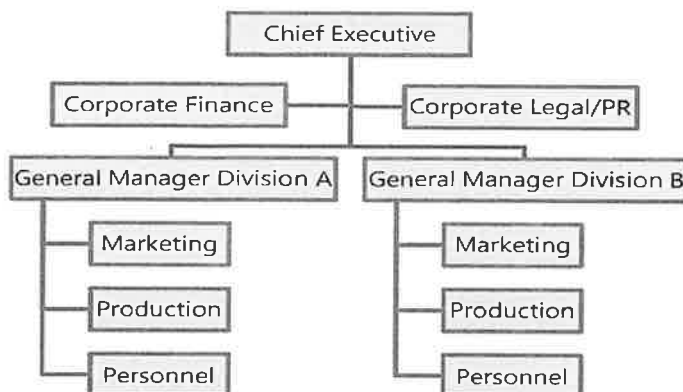


Figure: Divisional Structure

**3) 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.

**4) 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.

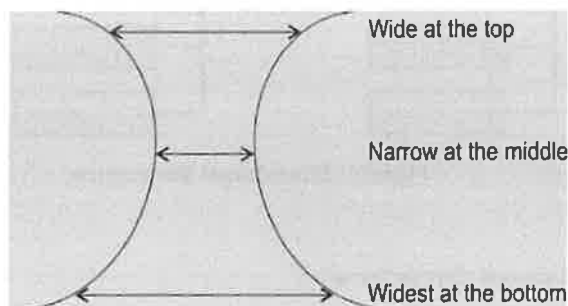
**Question 9:****(ICAI SM)**

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

**Answer:**

- 1) 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.

- 2) Hourglass organization structure consists of three layers in an organisation structure with constricted middle layer. The structure has a short and narrow middle management level.
- 3) Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities.



**Hourglass Organization Structure**

- 4) Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making.
- 5) 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.

**Question 10:**

(ICAI SM) / (RTP Nov 20) / (RTP Nov 21)

How can you differentiate between transformational and transactional leaders?

**Answer:**

**Difference between transformational and transactional leadership**

- 1) Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. Transactional leadership style uses the authority of its office to exchange rewards such as pay, status symbols etc.
- 2) Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organisations, when there is a need to inspire a company to embrace major changes. Transactional leadership style can be appropriate in static environment, in growing or mature industries and in organisations that are performing well.
- 3) 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.



**Question 11:**

(ICAI SM)

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:**

- a) The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change.
- b) 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.
- c) 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.
- d) 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:**

- a) Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined.
- b) H.C. Kellman proposed three methods for reassigning new patterns of behavior as compliance, identification and internalisation.

**3) Refreezing:**

- a) 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.
- b) 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.

- c) 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.

**Question 12:****(ICAI SM)**

**What are the differences between operational control and management control?**

**Answer:**

**Differences between Operational Control and Management Control are as under:**

- 1) The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead of 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.
- 2) Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand, the basic purpose of management control is the achievement of enterprise goals - short range and long range - in an effective and efficient manner.

**Question 13:****(ICAI SM) / (RTP May 21)**

**What is strategic control? Briefly explain the different types of strategic control.**

**Answer:**

**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.

**There are four types of strategic control:**

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

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

**Question 14:**

(ICAI SM) / (RTP Nov. 21)

What is implementation control? Discuss its basic forms.

**Answer:**

- 1) Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps.
- 2) 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.
- 3) Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy.
- 4) The two basic forms of implementation control are:
  - a) **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.
  - b) **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.



### Questions from PAST Exam/ RTP / MTP [As per OLD Syllabus]

Question 15:

(Jan 21) / (Dec 21)

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.

**Answer:**

- 1) Implementation and execution are an operations-oriented activity aimed at shaping the performance of core business activities in a strategy-supportive manner.
- 2) 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.
- 3) Good strategy execution involves creating strong "fits" between strategy and organizational capabilities, structure, climate & culture.
- 4) In most situations, strategy-execution process includes the following principal aspects:
  - a) Developing budgets that steer ample resources into those activities critical to strategic success.
  - b) Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities and organizing the work effort.
  - c) Ensuring that policies and operating procedures facilitate rather than impede effective execution.
  - d) Using the best-known practices to perform core business activities and pushing for continuous improvement.
  - e) Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
  - f) Motivating people to pursue the target objectives energetically.
  - g) Creating a company culture and work climate conducive to successful strategy implementation and execution.
  - h) Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

Question 16:

(MTP Mar. 22)

Distinguish between Strategic Planning and Operational Planning.

Answer:

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

Question 17:

(Dec 21)

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

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

Answer:

- 1) 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.

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

**Question 18:****(MTP Mar. 22)**

**What do you understand by functional structure?**

**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.

**Question 19 (RTP Mar. 22)**

**"A network structure is suited to unstable environment." Elucidate this statement.**

**Answer:**

- 1) Network structure is a newer and somewhat 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.
- 2) An organization organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.
- 3) 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.
- 4) Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration.
- 5) The network structure provides organization with increased flexibility and adaptability to cope with rapid technological change and shifting pattern of international trade and competition.

**Question 20:****(RTP May 21)**

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

**Analyse the leadership style followed by Suraj Prakash and Chander Prakash.**

**Answer:**

Suraj Prakesh is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities.

- 1) 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.
- 2) Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.





On the other hand, Chander Prakash is a follower of transformational leadership style. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization.

- 1) 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.
- 2) 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.

**Question 21:****(RTP May 21)**

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:**

- 1) 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.
- 2) 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.
  - a) The first step is to diagnose which facets of the present culture are strategy supportive and which are not.
  - b) Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
  - c) 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.
- 3) 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.

## Question 22:

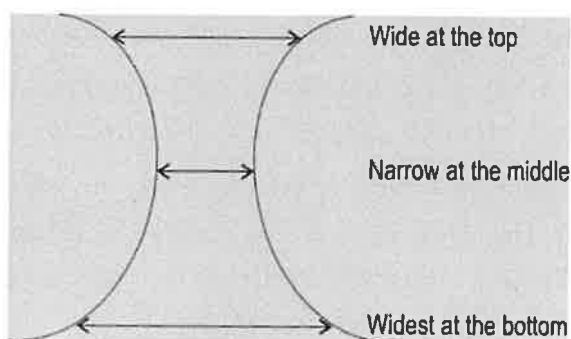
(RTP Nov 20)

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?

Answer:

- 1) 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.
- 2) 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.
- 3) The skewed middle level managers now perform cross-functional duties. All these factors indicate towards Hourglass organization structure.



**Hourglass Organization Structure**

## Question 23:

(Nov 20)

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**

- 1) **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.
- 2) **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.
- 3) **Yes, Premise control** is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily **involves monitoring two types of factors**:
  - a) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory.
  - b) Industry factors such as competitors, suppliers, substitutes.
- 4) 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.

## Question 24:

(RTP May 22)

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?

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:**

- a) 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.
- b) 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.
- c) 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.

**Question 25:**

(RTP Nov 21) / (MTP Mar. 22)

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.

**Answer:**

- 1) 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.
- 2) Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.
- 3) 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.
- 4) Three steps for initiating strategic change are:
  - a) **Recognise the need for change** - The first step is to diagnose the which facets of the present corporate culture are strategy supportive and which are not.
  - b) **Create a shared vision to manage change** - Objectives of both individuals and organisation should coincide. There should be no conflict between them. This is possible only if the management and the organisation members follow a shared vision.



- c) **Institutionalise the change** - This is an action stage which requires the implementation of the changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of doing things.

**Question 26:**

(RTP Nov 20)

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 behaviour in order to succeed in the new set of circumstances.



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## About the Author

- Having cracked the CA exam at the **age of 21**. RJ Sir became one of the youngest Chartered Accountants in India.
- He simplifies all concepts in the **easiest** way possible.
- His Extra-ordinary rapport/contact with students, make him highly accessible for their numerous difficulties.
- He is always available for Advice, related to CA course and beyond the course.
- He applies **simulation techniques** used by MNC's and Big 4's and provides example of actual & audit setting which in turn gives students a peek into industry methodologies.
- Only Audit Professor in India with more than **6 years'** experience in Big 4s (**PWC & Deloitte**).
- He has mentored over 20,000 students in a short span of **10 years**.
- Engages students with real-world scenarios, from his prior experience with Fortune 500 clients.
- Mentored many of his students who are now successful professionals.
- Placed many of his students in Big Four firms across India.
- Conducts exclusive speaker sessions on Startups and New Emerging Technologies.



CA Rishabh Jain



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