

PAPER – 6B : STRATEGIC MANAGEMENT

QUESTIONS

1. State with reasons which of the following statements are correct/incorrect:
 - (a) Divesting a major product line or market in an organization can be termed as retrenchment strategy .
 - (b) “B” in BCG Matrix stands for balance.
 - (c) Concentric diversification amounts to unrelated diversification.
 - (d) Vertical diversification integrates firms forward or backward in the product chain.
 - (e) A core competence is a unique strength of an organization which may not be shared by others.
 - (f) Skimming means keeping price very low.
 - (g) Primarily, strategy formulation is an operational process and strategy implementation is an intellectual process.
 - (h) The focus of six sigma is on customers.
 - (i) BPR is an approach to maintain the existing growth of an organization.
 - (j) Supply chain management is conceptually wider than logistic management.
2. Briefly answer the following questions in 2-3 sentences each.
 - (a) Explain conglomerate diversification.
 - (b) What is six sigma?
 - (c) Does HRM function play a role in organizational strategy?
 - (d) What is Kieretsus?
 - (e) Define Benchmarking.
 - (f) What is Total Quality Management (TQM)?
 - (g) Define Demarketing.
3. Explain in detail the term corporate strategy with its characteristics.
4. Critically explain the BCG matrix.
5. Describe in detail the SWOT analysis. What is its significance in organizations?
6. Discuss strategic alternatives with reference to Michael Porter’s strategies.
7. Write an explanatory note on strategic business units.
8. Explain the concept of value chain analysis.
9. What is strategy implementation? How far it is different from strategy formulation?
10. Discuss in detail the two main styles of strategic leadership.

11. Briefly discuss various elements of macro environment.
12. What is strategic change? Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies?
13. Define corporate culture. Also elucidate the statement "Culture is a strength that can also be a weakness".
14. Tangy spices Ltd, the countries' biggest spices marketer has decided to launch a hostile bid for Italy's major spice marketer Chilliano. This is a rare case of an Indian company making an unsolicited hostile bid for a foreign company. The Tangy Spices Ltd. has competencies in Indian spices. The major destination markets for the Tangy spices Ltd. exports have been the Europe and America. The competencies of Chilliano lie in Italian herbs and spices. The Indian with the takeover wishes to synergies its operations in the world market. It also wants to take advantage of the reach enjoyed by the Italian company in several countries where its products are not being sold presently.

The move of hostile takeover follows Chilliano's rejection to an agreement entered a year back. At that time Chilliano was suffering losses and it offered majority shares at a price of € 2.25. A total of 20% shares were transferred at that time. In one year Chilliano was able to turnaround its operations and the company made handsome profits in the last quarter. The promoters who have residual holding of 35% in the company are reluctant to transfer the shares now. They have rejected the agreement with a plea that the earlier offer price was not sufficient.

Tangy spices Ltd. has revised its offer to € 2.95 By this lucrative offer some of the large shareholders of Chilliano reveal their interest for selling their stakes. On the other hand, promoters maintained their position on this matter. Through the process of buying of shares in the market the Tangy spices Ltd. gradually consolidated its holding in Chilliano to 45%. Being a major shareholder they were ready for a takeover. At the same time, Tangy spices Ltd. was trying hard to improve their position so that they do not leave any space for Chilliano's promoters in future.

Read the above case and answer the following questions:

- (a) What strategic alternative followed by Tangy spices Ltd?
- (b) Is the hostile takeover by an Indian company appropriate?
- (c) Why the Tangy Spices Ltd. is interested in this takeover?
- (d) Why the promoters are reluctant to transfer the shares after the agreement?

SUGGESTED ANSWERS/HINTS

1. (a) Correct: An organization can redefine its business by divesting a major product line or market. The divesting can be termed as retrenchment strategy. The enterprise may withdraw from marginal markets, withdraw some brands or sizes of products. It may also withdraw of some slow moving products. In an extreme manner it may

seek retirement either from the production or the marketing activity.

- (b) Incorrect: The acronym BCG stands for Boston Consulting Group, an organization that developed a matrix to portray an organizational corporate portfolio of investment. This matrix depicts growth of business and the business share enjoyed by an organization. The matrix is also known for its cow and dog metaphors and is popularly used for resource allocation in a diversified company.
- (c) Incorrect: Concentric diversification amounts to related diversification. Concentric diversification takes place when the products or services added are in different industry but are similar to the existing product or service line with respect to technology or production or marketing channels or customers.
- (d) Correct: In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. It moves forward or backward in the chain and enters specific product with the intention of making them part of new businesses for the firm.
- (e) Correct: A core competence is a unique strength of an organization which may not be shared by others. If business is organized on the basis of core competence, it is likely to generate competitive advantage. A core competence provides potential access to a wide variety of markets. Core competencies should be such that it is difficult for competitors to imitate them.
- (f) Incorrect: In skimming, prices of a new product are kept at a very high level. The idea is to take advantage of the initial interest that a new product generates amongst the buyers who are relatively price insensitive.
- (g) Incorrect: Strategy formulation is primarily an intellectual process and strategy implementation is primarily an operational process. Strategy formulation is based on strategic decision-making which requires analysis and thinking while strategy implementation is based on strategic as well as operational decision-making which requires action and doing.
- (h) Correct: Six sigma puts the customer first and uses facts and data to derive better solutions and products. Six sigma focus on three main areas: improving customer satisfaction, reducing cycle time and reducing defects.
- (i) Incorrect: BPR is an approach to unusual enhancement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involve examination of the basic processes.
- (j) Correct: Supply chain management is an extension of logistic management. Logistic management is related to planning, implementing and controlling the storage & movement of goods & services while supply chain management is much more than that. It is a tool of business transformation and involve delivering the right product at the right time to the right place and at the right price.

2. (a) When an organization adopts a strategy which requires taking up those activities which are unrelated to the existing businesses, either in terms of their respective customer groups, customer functions or alternative technologies, it is called conglomerate diversification. Conglomerate diversification has no common thread at all with the firm's present position. For example, the businesses of Godrej are diversified into furniture, soaps, oils, insecticides and so on.
- (b) Six Sigma is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational outputs in terms of quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones. It means taking systemic and integrated efforts toward improving quality and reducing cost.
- (c) The role of human resources in enabling the organization to effectively deal with the external environmental challenges, the human resource management function has been accepted as a strategic partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and rewarding of personnel. An organization's recruitment, selection, training, performance appraisal, and compensation practices can have a strong influence on employee competence is very important.
- (d) Kieretsus is a loosely-coupled group of companies, usually in related industries. It is a Japanese term which is used for large cooperative networks of businesses. Kieretsus members are peers and may own significant amounts of each other's stock and have many board members in common.
- (e) Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of need to have information against which performances can be measured. It is a process of continuous improvement in search for competitive advantage. It measures a company's products, services and practices against those of its competitors or other acknowledged leaders in their field.
- (f) TQM is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. It is a total system approach (not a separate area or program) and an integral part of high-level strategy; it works horizontally across functions and departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain. TQM stresses learning and adaptation to continual change as keys to organizational success.
- (g) Demarketing is a marketing strategy to reduce demand temporarily or permanently- the aim is not to destroy demand, but only to reduce or shift it. This happens when the demand is too much to handle. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are overcrowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

3. The term strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position. Strategies are formulated at the corporate, divisional and functional level. Corporate strategies are formulated by the top managers. They include the determination of the business lines, expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on. These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like.

In general, a corporate strategy has the following characteristics:

- ◆ It is generally long-range in nature, though it is valid for short-range situations also and has short-range implications.
 - ◆ It is action oriented and is more specific than objectives.
 - ◆ It is multi-pronged and integrated.
 - ◆ It is flexible and dynamic.
 - ◆ It is formulated at the top management level, though middle and lower level managers are associated in their formulation and in designing sub-strategies.
 - ◆ It is generally meant to cope with a competitive and complex setting.
 - ◆ It flows out of the goals and objectives of the enterprise and is meant to translate them into realities.
 - ◆ It is concerned with perceiving opportunities and threats and seizing initiatives to cope with them. It is also concerned with deployment of limited organizational resources in the best possible manner.
 - ◆ It gives importance to combination, sequence, timing, direction and depth of various moves and action initiatives taken by managers to handle environmental uncertainties and complexities.
 - ◆ It provides unified criteria for managers in function of decision making.
4. Refer to Chapter 3. The BCG growth-share matrix is the simplest way to portray an organisation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix. Using the matrix, organisations can identify four different types of products or SBU as follows:
 - ◆ Stars
 - ◆ Cows
 - ◆ Question marks
 - ◆ Dogs

5. Refer to Chapter 3. An organization need to work within a complex and often hostile environment. They need to generate a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a SWOT analysis.

- ◆ Strength
- ◆ Weakness
- ◆ Opportunity
- ◆ Threat

Students may explain the above points and bring out its significance. Strategies will help in creating a firm-specific business model that will best align, fit, or match a company's resources and capabilities to the demands of the environment in which it operates.

6. Refer to Chapter 4. According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter calls these bases as generic strategies. Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. Focus means producing products and services that fulfill the needs of small groups of consumers.

Porter stresses the need for strategists to perform cost-benefit analyses to evaluate "sharing opportunities" among a firm's existing and potential business units. Sharing activities and resources enhances competitive advantage by lowering costs or raising differentiation. In addition to prompting sharing, Porter stresses the need for firms to "transfer" skills and expertise among autonomous business units effectively in order to gain competitive advantage. Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

7. Refer to Chapter 6. In modern times, many big organizations structure their businesses into appropriate strategic business units (SBUs). An SBU is a grouping of related businesses, which is amenable to composite planning treatment. As per this concept, a multi-business enterprise groups its businesses into a few distinct business units in a logical manner. The purpose is to provide effective strategic planning treatment to each one of its products/businesses.

The three most important characteristics of SBU are:

- ◆ It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand alone from the rest of the organization.
- ◆ Has its own set of competitors.

- ◆ Has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

The identification of SBUs is a convenient starting point for planning since once the company's strategic business units have been identified, the responsibilities for strategic planning can be more clearly assigned.

8. Refer to Chapter 6. Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). Value analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. These two basic steps of identifying separate activities and assessing the value added from each were linked to an analysis of an organization's competitive advantage by Michael Porter.

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organised into routines and systems which ensure that products or services are produced which are valued by the final consumer/user.

9. Refer to Chapter 6. Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. Many managers fail to distinguish between strategy formulation and strategy implementation. Yet, it is crucial to realize the difference between the two because they both require very different skills. Strategy implementation is fundamentally different from strategy formulation.
10. Two basic approaches to leadership can be transformational leadership style and transactional leadership style.

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. They offer excitement, vision, intellectual stimulation and personal satisfaction. It inspires 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.

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

charismatic behaviours to make people feel important and cherished is arguably important during periods of uncertainty when people are generally feeling quite distressed. Transformational leaders will challenge established paradigms and ways of working.

However, some researchers believe that leaders who rely too heavily upon charisma are not always effective in the long term. This is because few individuals may be talented and energetic are able to handle all types of business problems alone. They require people around them who are able to support them, and who are prepared to tell them when things are going wrong.

Whereas, transactional leadership style focus more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. It tries to build on the existing culture and enhance current practices. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. For employees' work efforts and generally seek to enhance an organisation's performance steadily, but not dramatically.

Transactional leadership style may be appropriate in settled environment, in growing or mature industries, and in organizations that are performing well. The style is better suited in persuading people to work efficiently and run operations smoothly.

In conclusion, neither style of leadership is suitable for all circumstances. Effective executives use a leadership style that is appropriate to the needs of the organization and its business situation.

11. Refer to Chapter 1. Macro environment is explained as one which is largely external to the enterprise and thus beyond the direct influence and control of the organization, but which exerts powerful influence over its functioning. The external environment of the enterprise consists of individuals, groups, agencies, organizations, events, conditions and forces with which the organization comes into frequent contact in the course of its functioning. Macro environment can be broadly classified as:
 - ◆ Demographic environment
 - ◆ Economic environment
 - ◆ Political-legal environment
 - ◆ Socio-cultural environment
 - ◆ Technological environment
 - ◆ Global environment
12. The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business.

To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

- (a) **Unfreezing the situation:** The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first “unfreezing the situation”, so that members would be willing and ready to accept the change.

Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

- (b) **Changing to New situation:** Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

- ◆ **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.
- ◆ **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.
- ◆ **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.

- (c) **Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this new acquired behaviour does not diminish or extinguish.

Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

13. The phenomenon which often distinguishes good organizations from bad ones could be summed up as ‘corporate culture’. Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers. Culture affects not only the way managers behave within an organization but

also the decisions they make about the organization's relationships with its environment and its strategy.

"Culture is a strength that can also be a weakness". This statement can be explained by splitting it in to two parts.

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

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

14. This case is for your practice. Remember, there is no rigid solution to a case problem. You can arrive at your own solutions. The opinions differ and your approach will also be different. However, you must offer supporting evidence for your views and judgements. You should draw inferences from theoretical concepts of strategic management and integrate them in the decisions. You should not rely upon unsupported opinions and over generalizations and clearly demonstrate that your interpretations are reasonable, logical and objective.