STRATEGIC MANAGEMENT

COMPILATION OF ALL RTPs With Solutions OF IPC : IT – SM

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1. State with reasons which of the following statements are correct/incorrect:
   (a) According to Peter F Drucker businesses exist for making profits.
   (b) Businesses function in an isolated manner.
   (c) Under Porter's five forces model new entrants are insignificant source of competition.
   (d) Competition is bad for organisations.
   (e) Businesses have to respond to hostile environment with strategy.
   (f) Strategies are not substitute for sound, alert and responsible management.
   (g) Strategy is partly proactive and partly reactive
2. Briefly answer the following questions in 2-3 sentences each.
   (a) What do you understand by demographic environment of a business?
   (b) What is a strategy?
   (c) What is diversification?
   (d) Explain key factors for competitive success.
   (e) What is divestment?
   (f) Discuss network structure.
   (g) Explain the concept of benchmarking?
3. Discuss the competitive environment of the business. What are the five forces of competitive analysis that are suggested by Michel Porter?
4. What do you understand by environmental influences on the environment? Discuss the problems associated with the efforts for understanding the environment.
5. What is decision making? What are the major dimensions of strategic decisions?
6. What is strategic vision? What are its elements?
7. Do you think that the companies should manage strategically? Discuss.
8. What is strategic analysis? How TOWS matrix can be used for analysing strategic situation of a company?
9. Discuss expansion as business strategy. What are the broad ways for businesses to expand?
10. Discuss the concept of Marketing Mix
11. Discuss the important areas where human resource manager can play a strategic role.
12. 'A good strategy may fail if it is not implemented properly'. Discuss.
13. Discuss strategic business unit as a form of organisation structure.
14. What is business process reengineering? How can it be implemented in an organisation?
15. Home Ease Ltd is a major manufacturer of home appliances in the country. The company manufactures water purifier, electric ovens, irons, juicers and choppers. Last two years have not been good for the company. It has lost its market share to its competitors and imports. The Chief Executive Officer, Kawaljit, is worried as the company has underperformed in its key financial indicators. Cheap Chinese products have also threatened the survival of the company. Opening of economy has also brought in manufacturers from around the world who also possess new technology and designs. The customers are attracted to these designs.

   To discuss the matters Kawaljit called Gopinath, and Premnath to his office. Gopinath is a bright Chartered Accountant and is acting as head of Finance Department in the company. Premnath is an engineer and MBA with twelve years of experience in marketing of electronic goods. He has joined company around six months back and is acting as head of marketing division and managing things at national level

Premnath felt that the company is facing problems as it has been too complacent. It has not responded to the changing environmental conditions and has not undertaken any formal strategic planning. He also felt that in the past the company has pursued objectives that have been conflicting to each other. In order to bring competitive advantage, Premnath suggested involving people from all levels in the organisation for developing business strategy. He also said that the sales people who are in touch with the customers and retailer should also be involved and greater emphasis should be placed on understanding the external environment. This will help company to assess and formulate ways to have competitive advantage using unique combination of resources, skills and capabilities within the environment.

However, Gopinath outlined the benefits of more formal top down approach to planning. Premnath argued that in the dynamic environment in which the company is operating involving too many people would be waste of time. The company has to incur huge cost and such an approach will only result in more confusion and chaos.

Read the above case and answer the following questions:

(a) Do you think that involving too many people in the planning exercise would be a waste of time? Discuss.

(b) If Kawaljit hires you as an consultant which approach will you advocate? Why?

SUGGESTED ANSWERS/HINTS

1. (a) Incorrect: Peter F Drucker was of the view that businesses cannot be explained in terms of profit. The economic criterion of maximising profits for a firm has little relevance in the present times. Profit maximization, in simple terms is selling at a higher price than the cost. Profit maximization is subject to the long-term perspective and includes development of wealth and several non-financial factors such as market position, goodwill, societal factors, relations and so on.

(b) Incorrect: Businesses function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually fade-away in oblivion. To be successful business has to not only recognise different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper.

(c) Incorrect: Porter's model considers new entrant as a significant and powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

(d) Incorrect: All organizations have competition. Multinationals and large organizations clash directly on every level of product and service. Mid-sized and small business also chase same customers and find that prices and product quality are bounded by the moves of their competitors. Even large public sector monopolies are gradually getting privatised and facing competition.

(e) A typical dictionary will define the word strategy as something that has to do with war and deception of an enemy. In business organizational context the term is not much different. Businesses have to respond to a dynamic and often hostile environment for pursuit of their mission using strategy.

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

(g) A company's strategy is typically a blend of (1) proactive actions on the part of managers to improve the company's market position and financial performance and (2) as needed reactions to unanticipated developments and fresh market conditions. The biggest portion of a company's current strategy flows from previously initiated actions and business approaches that are working well enough to merit continuation and newly launched managerial initiatives to strengthen the company's overall position and performance. However, things happen that cannot be fully anticipated or planned for.

2. (a) The term demographics denote characteristics of population in an area, district, country or in world. It includes factors such as race, age, income, educational attainment, asset ownership, home ownership, employment status and location. Data with respect to these factors within a demographic variable, and across households, are both of interest, as well as trends over time to businessmen in addition to economist.

(b) Businesses have to respond to a dynamic and often hostile environment for pursuit of their mission. Strategy seeks to relate the goals of the organization to the means of achieving them. An organisation's strategy is its long range blueprint of desired image, direction and destination what it wants to be, what it wants to do and where it wants to go.

(c) Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. Diversification happens when an established firm introduces a new product which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups.

(d) Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.

(e) Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

(f) A newer and somewhat more radical organizational design, the network structure is an example of what could be termed a "non-structure" by its virtual elimination of in house business functions and outsourcing many of them. A corporation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.

(g) Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It is a process of continuous improvement in search for competitive advantage. It measures and strives to better a company's products, services and practices against those of its competitors or other acknowledged leaders in their field.

3. All organizations have competition. Multinationals and large organizations clash directly on every level of product and service. Mid-sized and small businesses chase same customers and find that prices and product quality are bounded by the moves of their competitors. For a single business organization the competition spells out freedom of entry and exit in the market and affects its prices and scale of operations. Businesses have to consider competitors' strategies, profits levels, costs, products and services when preparing and implementing their business plans.

Thinking strategically about a company's competitive environment entails using some well defined concepts and analytical tools. Michael Porter provided a framework that models an industry as being influenced by five forces. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

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

Students may refer to chapter 1 for elaborate discussion.

4. Businesses function within its relevant environment and have to continuously interact with it. To be successful businesses have to recognise different elements of the environment. They have to adapt or evolve themselves or have to manage and influence the elements. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

   Business functions as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are partly exchanged with the external client groups, say customers. The exchange process brings in some surplus (or profits, reputation, good public image and so on) to the business, which could be stored and used for further development and growth.

   In trying to understand the environment, managers face different problems as follows:

   - The environment encapsulates many different influences; the difficulty is in making sense of this diversity in a way which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be of much use.
   - The second difficulty is that of uncertainty. Managers typically claim that the pace of technological change and the speed of global communications mean more and faster change now than ever before. It is very difficult to understand future external influences on an organization.
   - Managers are no different from other individuals in the way they cope with complexity. They tend to simplify such complexity by focusing on aspects of the environment, which, perhaps, have been historically important, or confirm prior views. These are the natural behaviour of everyone faced with complexity.

   Refer to chapter 1.

5. Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may relate to general day to day operations. They may be major or minor. They may also be strategic in nature. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are given below:

   - Strategic issues require top-management decisions
   - Strategic issues involve the allocation of large amounts of company resources.
   - Strategic issues are likely to have a significant impact on the long term prosperity of the firm.
   - Strategic issues are future oriented.

- Strategic issues usually have major multifunctional or multi-business consequences.
- Strategic issues necessitate consideration of factors in the firm's external environment.

Refer to chapter 2.

6. A strategic vision delineates organisation's aspirations for the business, providing a panoramic view of the position where the organisation is going. A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

   A Strategic vision is a road map 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.

   There are three elements of a strategic vision as follows:

   - Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "Who we are and where we are now?"
   - Using the mission statement as basis for deciding on a long-term course making choices about "Where we are going?"
   - Communicating the strategic vision in clear, exciting terms that arouse organization wide commitment.

   Refer to chapter 2.

7. In today's competitive environment strategic management is must. Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilize all facets of the organization), and functional plans (plans to carry out daily operations from the different functional disciplines). To meet changing conditions in their industries, companies need to be farsighted and visionary, and must develop long-term strategies. Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. Strategic management provides the framework for all the major business decisions of an enterprise such as decisions on businesses, products and markets, manufacturing facilities, investments and organizational structure. In a successful corporation, strategic planning works as the pathfinder to various business opportunities; simultaneously, it also serves as a corporate defence mechanism, helping the firm avoid costly mistakes in product market choices or investments.

   Strategic management has the ultimate burden of providing a business organization with certain core competencies and competitive advantages in its fight for survival and growth.

   Refer chapter 2.

8. Refer to chapter 3. Strategy formulation is not a task in which managers can get by with opinions, good instincts, and creative thinking. Judgements about what strategy to pursue need to flow directly from solid analysis of a company's external environment and internal situation. The two most important situational considerations are (i) industry and competitive conditions and (ii) a company's own competitive capabilities, resources, internal strengths and weaknesses, and market position. The analytical sequence is from strategic appraisal of the company's external and internal situation, to evaluation of alternatives, to choice of strategy. Accurate diagnosis of the company's situation is necessary managerial preparation for deciding on a sound long-term direction, setting appropriate objectives, and crafting a winning strategy. Heinz Weihrich has developed a matrix called TOWS matrix by comparing strengths and weaknesses of organization with that of market opportunities and threats.

9. While expanding an organisations seeks significant growth. This growth can be within the current businesses (intensification) or by entering new businesses (diversification). New businesses can

be related or unrelated. Students may refer to chapter 4 and briefly discuss different ways for intensification and diversification.

10. Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "4 Ps." The 4 Ps stand for product, price, place and promotion. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers. The 4 Ps are from a marketer's angle. When translated to buyers angle they may be termed as 4 Cs. Product may be referred as customer solution, price as customer cost, place as convenience and promotion as communication.

    ♦ Product stands for the "goods-and-service" combination the company offers to the target market. Strategies are needed for managing existing product over time adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warrantees.

      Products and markets are infinitely dynamic. An organization has to capture such dynamics through a set of policies and strategies. Some products have consistent customer demand over long period of time while others have short and fleeting life spans. There are products that have wide range of quality and workmanship and these also change over time. There are industrial or consumer products, essentials or luxury products, durables or perishables.

      Products can be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Organizations seek to hammer into customers' minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketers product is different from others.

      Organizations formalize product differentiation through christening 'brand names' to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products' and even firms' image is built around brand through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

    ♦ Price stands for the amount of money customers have to pay to obtain the product. Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale. The price of a product is its composite expression of its value and utility to the customer, its demand, quality, reliability, safety, the competition it faces, the desired profit and so on.

      In an industry there would be organizations with low cost products and other organizations with high costs. The low cost organizations may adopt aggressive pricing strategy as they enjoy more freedom of action in respect of their prices. They may also afford selective increase in costs to push their sales.

      Theoretically, organizations may also adopt cost plus pricing wherein a margin is added to the cost of the product to determine its price. However, in the competitive environment such an approach may not be feasible. More and more companies of today have to accept the market price with minor deviations and work towards their costs. They reduce their cost in order to maintain their profitability.

      For a new product pricing strategies for entering a market needs to be designed. In pricing a really new product at least three objectives must be kept in mind.

      (a) Making the product acceptable to the customers.

      (b) Producing a reasonable margin over cost.

      (c) Achieving a market that helps in developing market share.

For a new product an organization may either choose to skim or penetrate the market. In skimming prices are set at a very high level. The product is directed to those buyers who are relatively price insensitive but sensitive to the novelty of the new product. For example call rates of mobile telephony were set very high initially. Even the incoming calls were charged. Since the initial offtake of the product is low, high price, in a way, helps in rationing of supply in favour of those who can afford it. In penetration firm keeps a temptingly low price for a new product which itself is selling point. A very large number of the potential consumer may be able to afford and willing to try the product.

- Place stands for company activities that make the product available to target consumers. One of the most basic marketing decision is choosing the most appropriate marketing channel. Strategies should be taken for the management of channel(s) by which ownership of product is transferred from producers to customers and in many cases, the system(s) by which goods are moved from where they are produced from they are purchases by the final customers. Strategies applicable to the middleman such as wholesalers and retails must be designed.

  The distribution policies of a company are important determinants of the functions of marketing. The decision to utilize a particular marketing channel or channels sets the pattern of operations of sales force. We will learn more about place when we study logistics later in this chapter.

- Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition promotional strategies must be adjusted as a product move from an earlier stages from a later stage of its life.

  Modern marketing is highly promotional oriented. Organizations strive to push their sales and market standing on a sustained basis and in a profitable manner under conditions of complex direct and indirect competitive situations. Promotion also acts as an impetus to marketing. It is simultaneously a communication, persuasion and conditioning process. There are at least four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

  (i) Personal Selling: Personal selling is one of the oldest forms of promotion. It involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them. In personal selling, oral communication is made with potential buyers of a product with the intention of making a sale. It may initially focus on developing a relationship with the potential buyer, but end up with efforts for making a sale. Personal selling suffers from a very high costs as sales personnel are expensive. They can physically attend only one customer at a time. Thus it is not a cost-effective way of reaching a large number of people.

  (ii) Advertising: Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertisings are several such as pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet. Choice of appropriate media is important for effectiveness of the message. The media may be local, regional, or national. The type of the message, copy, illustration are a matter of choice and creativity. Advertising may be directed towards consumers, middlemen or opinion leaders. Advertising is likely to succeed in promoting the sales of an organization but its effectiveness in respect to the expenditure can not be directly measured. Sales is a function of several variables out of which advertising is only one.

  (iii) Publicity: Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Organizations skillfully seek to promote themselves and their product without payment. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. Thus it is way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

(iv) Sales promotion: Sales promotion is an omnibus term that includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Activities like discounts, contests, money refunds, installments, kiosks, exhibitions and fairs constitute sales promotion. All these are meant to give a boost to the sales. Sales promotion done periodically may help in getting a larger market share to an organization.

Expanded Marketing Mix: Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not exhaustive. Few more elements may form part of an organizational marketing mix strategy:

- People: all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.
- Physical evidence: the environment in which the market offering is delivered and where the firm and customer interact.
- Process: the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

(Note: The answer is elaborate and includes pre examination note on the topic)

11. The human resource strategy of business should reflect and support the corporate strategy. An effective human resource strategy includes the way in which the organization plans to develop its employees and provide them suitable opportunities and better working conditions so that their optimal contribution is ensured. Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance and develop organizational culture that fosters innovation and flexibility. The success of an organization depends on its human resources. The prominent areas where the human resource manager can play strategic role are as follows:

(i) Providing purposeful direction.

(ii) Creating competitive atmosphere .

(iii) Facilitation of change.

(iv) Diversion of workforce.

(v) Empowerment of human resources.

(vi) Building core competency.

(vii) Development of works ethics and culture.

Refer to chapter 5.

12. Refer to chapter 6. Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system.

There are situations where an organisation formulates a very competitive strategy, but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience, the lack of necessary resources, missing leadership and so on. Unless corrective actions are taken the strategy will fail.

13. As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for strategists. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. In these instances, the SBU structure is appropriate. Also in multidivisional organizations, an SBU structure can greatly facilitate strategy implementation efforts. The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers. Refer to chapter 6.

14. Business process reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between the organizations. The orientation of the redesign effort is radical, i.e., it is a total deconstruction and rethinking of a business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum gains in the performance of the process in terms of time, cost, output, quality, and responsiveness to customers. The approach to BPR can be classified in the following steps:

    (i) Determining objectives and framework.

    (ii) Identify customers and determine their needs.

    (iii) Study the existing process.

    (iv) Formulate a redesign process plan.

    (v) Implement the redesign.

15. This case is for your practise. 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 generalisations and clearly demonstrate that your interpretations are reasonable, logical and objective.

PAPER – 6B : STRATEGIC MANAGEMENT

QUESTIONS

1. State with reasons which of the following statements are correct/incorrect:
   (a) The benefit of competition are also enjoyed by the customers.
   (b) Strategies provide an integral framework for management to negotiate its way through a complex and turbulent external environment. .
   (c) Market penetration ignores competition.
   (d) Diversification only involves entering in new businesses that are related to the existing business of an organisation
   (e) Changes in strategy may lead to changes in organizational structure.
   (f) Culture promote better strategy execution
   (g) Reengineering mean partial modification or marginal improvement in the existing work processes.
2. Briefly answer the following questions .
   (a) What is an opportunity?
   (b) Explain the concept of retrenchment strategy.
   (c) What is strategic vision?
   (d) Explain the term marketing.
   (e) Describe tows matrix for strategic analyses.
   (f) What is business process reengineering?
3. Explain how technological factors present an opportunity as well as threat to a particular business organization.
4. Do you think that competition is always bad for organisations? Explain Porter's five forces model as to how businesses can deal with the competition.
5. Briefly describe the generic strategic alternatives given by Glueck and Jauch.
6. What do you understand by strategic management? Discuss its framework.
7. Discuss General Electric model of analyzing business portfolio
8. What is a Corporate Strategy? How organisations can deal with strategic uncertainty?
9. 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?
10. What do you understand by the term marketing mix? Discuss its various constituents.
11. What is supply chain management? Is it same as logistics management? Discuss
12. Discuss major steps in implementing supply chain management systems in an business organization.
13. What are functional strategies? Why are they needed?
14. An important part of strategic management process is implementation of strategy. Discuss the relationship of soundness of strategy with the quality of implementation.
15. Soft Breads Ltd, a bread manufacturer from south, entered into the business of bread manufacturing in the northern India in the year 1995 by acquiring brand name 'Delicious' from a local baker 'Kuldeep Sodhi' in Chandigarh known for his quality breads. The baker kept on preparing and selling breads, however, now with a different name – 'healthy' in changed package.

Soft Breads Ltd invested heavily in the machinery and equipment. In fact, it invested a sum of rupees thirty-five crores over a period of five years. It got immediate acceptance from the market as Delicious, a household name, was well known for its quality. Gradually, it captured major markets in adjoining cities of Haryana and Punjab. In the year 2005 its total turnover was 10 crores per annum with 50% market share in Chandigarh.

Meantime, 'Healthy' also got some recognition and was able to grow. Some of his loyal customers also shifted back to him realising that the baker has changed the name of the product. Its market share, in 2005 stood at 15% in Chandigarh city. Inspired by the success of 'Delicious' the baker joined with his two rich friends to form a partnership by the name of 'Healthy Foods' in the year 2006. They acquired an automatic modern plant to manufacture breads. The plant was better than that of Soft Breads Ltd. They were able to reduce their costs and started selling breads at one rupee cheaper than the competitors. They also introduced new products such as whole wheat bread, breads enriched with vitamins, bread for kids in chocolate flavour. Within one year their market share grew to 35% in Chandigarh. In the year 2007 their turnover was 12 crores against 20 crores of Soft Breads Ltd. Now they plan to enter into business of cakes and biscuits on a large scale.

Read the above case and answer the following questions:

(a) Discuss the strategy of Soft Breads Ltd.

(a) Discuss the strategy of Healthy Foods.

(b) Perform a SWOT analysis for Soft Breads Ltd.

(c) Do you think that Soft Breads Ltd has missed something while acquiring the brand name?

(d) What are the alternatives before the Soft Breads Ltd?

SUGGESTED ANSWERS/HINTS

1. (a) Correct: The benefit of competition are enjoyed by the society and the markets in which organisations operate. The customers are able to get products at lower costs and of better quality. They are able to get better value of their money because of competition.

(b) Correct: Strategies are meant to fill in the need of enterprises for a sense of direction, focus and coherent functioning. They provide a systematic basis for the enterprise to stand its ground in the face of challenge and change as also quickly adjust to them. They obviate the occasions for impulsive and crisis decisions, false starts, misdirected moves, wasted resource uses and the like.

(c) Incorrect: Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. Penetration might require greater spending on advertising or personal selling. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors.

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

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

(f) Correct: Strong cultures in an organisation promote good strategy execution when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution.

(g) Incorrect: Reengineering does not mean any partial modification or marginal improvement in the existing work processes. Reengineering is a revolutionary approach towards radical and total redesigning of the business processes.

2. (a) An opportunity is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides. Refer to Chapter 1.

(b) A business organization can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. Retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse effects of competition, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

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

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

(e) Refer to chapter 3. Heinz Weihrich has developed a matrix called TOWS matrix by comparing strengths and weaknesses of organization with that of market opportunities and threats. It has been criticized that after conducting the SWOT Analysis managers frequently fail to come to terms with the strategic choices that the outcomes demand. In order to overcome this, the TOWS Matrix, while using the same inputs (Threats, Opportunities, Weakness and Strengths) reorganizes them and integrates them more fully into the strategic planning process.

(f) Business process reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between the organizations. The orientation of the redesign effort is radical, i.e., it is a total deconstruction and rethinking of a business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum gains in the performance of the process in terms of time, cost, output, quality, and responsiveness to customers.

3. Refer to chapter 1. Technology is the most dynamic of all the environmental factors. An individual enterprise is concerned with the dynamics of its product and process technology, research and development activities in the industry and elsewhere, innovations in products and processes, technological obsolescence and so on. Changes in technology vitally affect the enterprise's costs, profitability, plant location decisions, product lines, growth and development.

The technology and business are highly interrelated and interdependent also. Technology is patronized by business. Technology also drives business and makes a total change on how it is carried out.

Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage. For example, an innovative and modern production system can act as weakness if the business is not able to change their production system. New entrants or existing competitors can always use availability of technological improvements in products or production methods that can be a threat to a business.

Technological opportunities and threats are not limited to the product or production. Technology permeates whole gambit of business. It can transform how a business acts and functions.

4. Refer to chapter 1. Although competition makes organizations work harder, intense competition is neither a coincidence nor bad luck. All organizations have competition. The benefit of competition are also enjoyed by the markets in which organisations operate. The customers are able to get products at lower costs and better quality. They get better value of their money because of competition.

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

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

5. According to William F Glueck and Lawrence R Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combination strategies.

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

   Expansion Strategy: Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigour, promise and success. Organisations can diversify, acquire and merge to expand.

   Retrenchment Strategy: A business organization can redefine its business by divesting a major product line or market. The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon each contingency. The enterprise has several options open to it in designing and acting upon its strategy.

   Combination Strategies: The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others.

6. Refer to chapter 2. The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy,

and then initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

The basic framework of strategic process can be described in a sequence of five stages as follows:

- Stage one - Where are we now? (Beginning)
- Stage two: - Where are we want to be? (Ends)
- Stage three - How might we get there? (Means)
- Stage four - Which way is best? (Evaluation)
- Stage five - How can we ensure arrival? (Control)

7. In order to analyse the current business portfolio, the company must conduct portfolio analysis (a tool by which management identifies and evaluates the various businesses that make up the company). In portfolio analyses top management views its product lines and business units as a series of investments from which it expects returns. The General Electric Model uses two factors in a matrix / grid situation as shown below:

Business Position

Attractiveness	High	Medium	Low
High	Invest	Invest	Protect
Medium	Invest	Protect	Harvest
Low	Protect	Harvest	Divest

8. Refer to chapter 4. Corporate strategy is basically the growth design of the firm. It spells out the growth objective of the firm - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth. Thus, we can also describe corporate strategy as the objective-strategy design of the firm. And, to arrive at such an objective-strategy design is the basic burden of corporate strategy formulation. Strategic uncertainty, uncertainty that has strategic implications, is a key construct in strategy formulation. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

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

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

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

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

10. Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "4 Ps." The 4 Ps stand for product, price, place and promotion. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers. The 4 Ps are from a marketer's angle. When translated to buyers angle they may be termed as 4 Cs. Product may be referred as customer solution, price as customer cost, place as convenience and promotion as communication.

- Product stands for the "goods-and-service" combination the company offers to the target market. Strategies are needed for managing existing product over time adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warrantees.

  Products and markets are infinitely dynamic. An organization has to capture such dynamics through a set of policies and strategies. Some products have consistent customer demand over long period of time while others have short and fleeting life spans. There are products that have wide range of quality and workmanship and these also change over time. There are industrial or consumer products, essentials or luxury products, durables or perishables.

  Products can be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Organizations seek to hammer into customers' minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketer's product is different from others.

  Organizations formalize product differentiation through christening 'brand names' to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products' and even firms' image is built around brand through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

- Price stands for the amount of money customers have to pay to obtain the product. Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale. The price of a product is its composite expression of its value and utility to the customer, its demand, quality, reliability, safety, the competition it faces, the desired profit and so on.

  In an industry there would be organizations with low cost products and other organizations with high costs. The low cost organizations may adopt aggressive pricing strategy as they enjoy more freedom of action in respect of their prices. They may also afford selective increase in costs to push their sales.

  Theoretically, organizations may also adopt cost plus pricing wherein a margin is added to the cost of the product to determine its price. However, in the competitive environment such an approach may not be feasible. More and more companies of today have to accept the market price with minor deviations and work towards their costs. They reduce their costs in order to maintain their profitability.

  For a new product pricing strategies for entering a market needs to be designed. In pricing a really new product at least three objectives must be kept in mind.

  (a) Making the product acceptable to the customers.

(b) Producing a reasonable margin over cost.

(c) Achieving a market that helps in developing market share.

For a new product an organization may either choose to skim or penetrate the market. In skimming prices are set at a very high level. The product is directed to those buyers who are relatively price insensitive but sensitive to the novelty of the new product. For example call rates of mobile telephony were set very high initially. Even the incoming calls were charged. Since the initial offtake of the product is low, high price, in a way, helps in rationing of supply in favour of those who can afford it. In penetration firm keeps a temptingly low price for a new product which itself is selling point. A very large number of the potential consumer may be able to afford and willing to try the product.

♦ Place stands for company activities that make the product available to target consumers. One of the most basic marketing decision is choosing the most appropriate marketing channel. Strategies should be taken for the management of channel(s) by which ownership of product is transferred from producers to customers and in many cases, the system(s) by which goods are moved from where they are produced from they are purchases by the final customers. Strategies applicable to the middleman such as wholesalers and retails must be designed.

The distribution policies of a company are important determinants of the functions of marketing. The decision to utilize a particular marketing channel or channels sets the pattern of operations of sales force. We will learn more about place when we study logistics later in this chapter.

♦ Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition promotional strategies must be adjusted as a product move from an earlier stages from a later stage of its life.

Modern marketing is highly promotional oriented. Organizations strive to push their sales and market standing on a sustained basis and in a profitable manner under conditions of complex direct and indirect competitive situations. Promotion also acts as an impetus to marketing. It is simultaneously a communication, persuasion and conditioning process. There are at least four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

(i) Personal Selling: Personal selling is one of the oldest forms of promotion. It involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them. In personal selling, oral communication is made with potential buyers of a product with the intention of making a sale. It may initially focus on developing a relationship with the potential buyer, but end up with efforts for making a sale. Personal selling suffers from a very high costs as sales personnel are expensive. They can physically attend only one customer at a time. Thus it is not a cost-effective way of reaching a large number of people.

(ii) Advertising: Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertisings are several such as pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet. Choice of appropriate media is important for effectiveness of the message. The media may be local, regional, or national. The type of the message, copy, illustration are a matter of choice and creativity. Advertising may be directed towards consumers, middlemen or opinion leaders. Advertising is likely to succeed in promoting the sales of an organization but its effectiveness in respect to the expenditure can not be directly measured. Sales is a function of several variables out of which advertising is only one.

(iii) Publicity: Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Organizations skillfully seek to promote themselves and their product without payment. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. Thus it is way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

(iv) Sales promotion: Sales promotion is an omnibus term that includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Activities like discounts, contests, money refunds, installments, kiosks, exhibitions and fairs constitute sales promotion. All these are meant to give a boost to the sales. Sales promotion done periodically may help in getting a larger market share to an organization.

Expanded Marketing Mix: Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not exhaustive. It is pertinent to discuss a few more elements that may form part of an organizational marketing mix strategy. They have got more currency in recent years. Growth of services has its own share for the inclusion of newer elements in marketing. A few new Ps are as follows:

- ♦ People: all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.
- ♦ Physical evidence: the environment in which the market offering is delivered and where the firm and customer interact.
- ♦ Process: the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

11. The way businesses were conducted in the yesteryears is entirely different as they are conducted now. Today, organisations work in highly turbulent environment. There are several changes in business environment that have contributed to the development of supply chain networks. The technology has made impact on all spheres of business activities. Organisational systems have improved. Even the available infrastructure is improving. Technological changes and reduction in information communication costs with increase in its speed has led to changes in coordination among the members of the supply chain network. Availability of newer technologies have resulted in creation of innovative products with shorter product life cycles.

Traditionally companies have been managing themselves by taking orders, buying supplies, manufacturing products and shipping them from their warehouses. Such organisations may lose out the businesses that strongly lay their focus on key areas of marketing, branding and delivering value to the customer and outsourcing the rest. Today organisations and individual customers have become more demanding. They desire customised products that are made according to their needs. They also aspire that these should be available at lower costs.

The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners – suppliers, intermediaries, other service providers and customers.

Supply chain management is defined as the process of planning, implementing, and controlling the supply chain operations. It is a cross-functional approach to managing the movement of raw materials into an organization and the movement of finished goods out of the organization toward the end-consumer who are to be satisfied as efficiently as possible. It encompasses all movement and storage of raw materials, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption. Organizations are finding that they must rely on the chain to successfully compete in the global market.

Modern organizations are striving to focus on core competencies and reduce their ownership of sources of raw materials and distribution channels. These functions can be outsourced to other business organizations that specialize in those activities and can perform in better and cost effective manner. In a way organizations in the supply chain do tasks according to their core-competencies. Working in the supply chain improve trust and collaboration amongst partners and thus improve flow and management of inventory.

Is logistic management same as supply chain management?

Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Although these activities also form part of Supply chain management, the latter has different components. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

12. Successful implementing supply management systems requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

Implementing and successfully running supply chain management system will involve:

1. Product development: Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all. Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.
2. Procurement: Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.
3. Manufacturing: Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle.
4. Physical distribution: Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus supply chain management links a marketing channel with customers.
5. Outsourcing: Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.
6. Customer services: Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with

customer to determine mutually satisfying goals, establish and maintain relationships. This in turn help in producing positive feelings in the organization and the customers.

7. Performance measurement: There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

13. For effective implementation, strategists have to provide direction to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. Functional area strategy such as marketing, financial, production and human resource are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then follows a discussion of each of these sub functional areas regarding the content of functional strategies, important factors, and their importance in the process of strategy implementation.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies, are made within the higher level strategies and guidelines therein that are set at higher levels of an organization. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

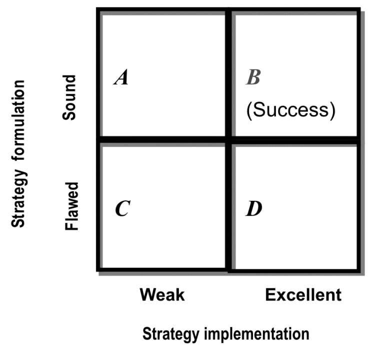
Major strategies need to be translated to lower levels to give holistic strategic direction to an organization. The reasons why functional strategies are needed can be enumerated as follows:

- The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.
- Functional strategies assist in flow of strategic decisions to the different parts of an organization.
- They act as basis for controlling activities in the different functional areas of business.
- The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.
- Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

Thus, strategies need to be segregated into viable functional plans and policies that are compatible with each other. In this way, strategies can be implemented by the functional managers. Environmental factors relevant to each functional area have an impact on the choice of functional strategies. Organizational strategies affect the choice of functional strategies. However, the actual process of choice is influenced by objective as well as subjective factors. Functional strategies affect, and are affected by, the resource allocation decisions.

14. 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 was made with some thought being given to feasibility and acceptability.

It is crucial to realize the difference between strategy formulation and strategy implementation because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. There is no such thing as successful strategic design. This sounds obvious, but in practice the distinction is not always made. The matrix in the figure below represent various combination of strategy formulation and implementation:



15. This case is for your practise. 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.

    In part (a) you may indicate the expansion and growth strategy of the company. On the other hand you should also highlight element of related diversification for Healthy foods in part (b). You should also give your own opinion as why such strategies are adopted. The facts given in the case may be categorised in the lines of strength weaknesses, opportunities and threats in part (c). In part (d) you need to think and write ways in which competition from the baker could have been avoided. For example, acquiring complete business and inclusion of non-compete clause could have ensured exclusion of competition at least from Kuldeep Sodhi. In part (e), use your imagination to suggest alternatives for Soft Breads Ltd.

    For answering the questions, you should draw inferences from theoretical concepts of strategic management and integrate them. You should not rely upon unsupported opinions and over generalisations and clearly demonstrate that your interpretations are reasonable, logical and objective.

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Nov 2008

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.

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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

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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.

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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 over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

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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

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5. Refer to Chapter 3. An organization need to work within a complex and often hostile environement. 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.

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- 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.

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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

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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.

June 2009

PAPER – 6B : STRATEGIC MANAGEMENT

QUESTIONS

1. State with reasons which of the following statements are correct/incorrect:
   (a) Successful businesses have to recognize different elements of environment.
   (b) A strength is an inherent capacity of an organization.
   (c) Socio-cultural environment consists of factors related to government and politics.
   (d) Strategies provide an integrated framework for the top management.
   (e) SWOT analysis merely examines internal environment of an organization.
   (f) Growth share matrix is popularly used for resource allocation.
   (g) Corporate strategy is basically the growth design of the firm.
   (h) Balance scorecard is a combination of strategic and marketing objectives.
   (i) Augmented marketing is provision of additional customer services and benefits.
2. Briefly answer any two of the following questions.
   (a) What is strategic decision making?
   (b) What is strategic vision?
   (c) Define Total Quality Management.
   (d) What do you mean by core competencies?
   (e) Define competitive advantage.
   (f) Discuss network structure.
   (g) How internet has helped business?
3. Explain the BCG model as a technique of portfolio analysis.
4. What are the various bases on which an existing firm can diversify strategically?
5. What is supply chain management? Discuss the various steps in implementing supply chain management system.
6. What is logistics strategy? What are the areas to examine while developing a logistics strategy?
7. Briefly discuss various elements of micro environment.
8. Explain in detail the 4 P's of Marketing Mix.
9. Discuss in brief the contribution of Glueck and Jauch in generic strategic alternatives.
10. What is Benchmarking? What are the areas where benchmarking can help.
11. Explain in detail the value chain analysis.

12. Explain in detail the various stages of corporate strategy formulation/implementation process.
13. Briefly discuss the difference between vision and mission.
14. In the mature and saturated South Indian food industry, competition for customers between the different chains, in north India, has been intense. 'Banana Leaf' is the industry leader. However, it has been under pressure to maintain its profit margins. As price wars between competitors have periodically broken out, the price of south Indian food has fallen. 'Delicious Food' started a major price war when it introduced its Rs. 35/- cheese dosa which pushed 'Banana Leaf' and other restaurants such as 'Tasty Treat' and 'South Delights' to find ways to lower their costs and prices. As a result of price competition, all the chains of restaurants were forced to learn how to make cheaper south Indian delicacies in order to lower their prices. With most restaurants now offering comparable prices, the focus of competition has shifted to other aspects of their products. First the major chains are all introducing bigger Dosa. The battle was started by 'South Delights', which is still waging an aggressive campaign to increase its market share at the expense of 'Banana Leaf'.

    'South Delights' added 15 grams dry fruits to its 160 grams Dosa and followed this with an intense advertising campaign based on the slogan, "get worth of your Dosas". The advertisement made a comparison with the Masala Dosas of 'Banana Leaf' which were more than 20% lighter. The campaign worked for 'South Delights' and the chain's market share rose by 18% in a year. As a result, 'Banana Leaf' announced that it would enlarge its Masala Dosa by 25% to beat the challenge from 'South Delights'.

    Developing bigger dosa is only one part of competitive strategy in the industry. Another major competitive strategy that 'South Delights' and 'Banana Leaf' have adopted is entering new markets by opening up new restaurants to attract customers. 'Banana Leaf' in particular has opened several restaurants in new locations such as in large retail stores and in smaller cities. This has been profitable and has helped it protect its market share and maintain its margins.

    Finally, a major aspect of the competitive strategy has been to take their core competencies and apply them on an international level by having tie-ups globally in countries with strong presence of Indians.

    In the mature industry, developing new competitive strategies to fend off attacks by other companies within the industry and to protect and enhance competitive advantage is a never ending task for strategic managers.

    Questions:

    (a) What are the competitive strategies adopted by various restaurants in the industry?

    (b) What strategy is being adopted by 'Banana Leaf' to grow and sustain in the competitive market?

    (c) What the chains have to do for building international brand loyalty?

(d) Which strategy helped south Indian chains to survive and sustain in this competitive environment?

SUGGESTED ANSWERS/HINTS

1. (a) Correct: To be successful businesses have to recognise different elements of the environment. They have to also respect, adapt to or have to manage and influence them. Businesses must continuously monitor and adapt to the environment to survive and prosper.

(b) Correct: Strength is an inherent capacity which an organization can use to gain strategic advantage over its competitors. An example of strength is superior research and development skill which can be used for continuous product innovation or for new product development so that the company gains competitive advantage.

(c) Incorrect: Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms and general fabric of society determine how individuals and organizations should be interrelated.

(d) Correct: Strategies provide a framework for management to negotiate its way through a complex and turbulent external environment. They provide a systematic basis for the enterprise to stand its ground in the face of challenge and change as also to quickly adjust to them.

(e) Incorrect: SWOT analysis presents the information about both external and internal environment in a structured form to compare external opportunities and threats with internal strengths and weaknesses. This helps in matching external and internal environments so that strategic decision makers in an organisation can come out with suitable strategies by identifying patterns of relationship and develop suitable strategies.

(f) Correct: Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Primarily it categorises organisations/products on the basis two factors consisting of the growth opportunities and the market share enjoyed.

(g) Correct: Corporate strategy in the first place ensures the growth of the firm and ensures the correct alignment of the firm with its environment. It serves as the design for filling the strategic planning gap. It also helps to build the relevant competitive advantages.

(h) Incorrect: Balance scorecard is a combination of strategic and financial objectives. It measure company performance, requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made.

(i) Correct: Augmented marketing refers to deliberate and accelerated efforts to get better marketing returns through additional means. It includes provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

2. (a) Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions are routine, tactical or strategic in nature. Strategic decisions are different from other decisions that are taken at various levels of the organization during day-to-day working of the organizations. They have long term implications, steer organisation to its future path, have organisation wide implications and so on. These decisions are taken considering different internal and external factors. They are also taken with partial or no definite knowledge of different factors affecting the decision situation. Refer to Chapter 2.

(b) A strategic vision delineates organization's aspirations for the business, providing a panoramic view of the position where the organization is going. A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity. Refer to Chapter 2.

(c) Total Quality Management is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organization and the supply chain is responsible for preventing rather than detecting defects. Refer to Chapter 7.

(d) 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. Refer to Chapter 5.

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

(f) Network structure is a newer and somewhat more radical organizational design. The network structure could be termed as 'non-structure' as it virtually eliminates in-house business functions and outsources many of them. A corporation organized in this manner is a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. Refer to Chapter 4.

(g) The Internet is an integrated network of high-speed computers and servers, digital switches and routers, telecommunications equipment and lines and individual computers of users. The Internet has provided a very fast means of communication to business with no geographic limitations. Internet also makes it feasible for companies to find, negotiate and deal across the world with suppliers on one hand and customers on the other. The evolving Internet technology is altering industry value chains, spawning substantial opportunities for increasing efficiency and reducing costs, and affecting strengths and weaknesses of business organisations.

3. Boston consulting group (BCG) growth-share matrix is the simplest way to portray an organisation's portfolio of investments. Growth share matrix is 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.

   - 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.

   Using the matrix, organisations can identify four different types of products or SBU as follows:

   - Stars
   - Cows
   - Question marks
   - Dogs

   Refer to Chapter 3.

4. Refer to chapter 4. Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

   (i) Vertically integrated diversification
   (ii) Horizontally integrated diversification
   (iii) Concentric diversification
   (iv) Conglomerate diversification

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5. Refer to chapter 5. The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chain consists of dealer and distributor network and extends right up to the source of the raw materials, different stages of development of product and moves from the source of raw materials to the market. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners – suppliers, intermediaries, distribution network, other service providers and customers.

6. Management of logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a logistics strategy it is defining the service levels at which its logistics is smooth and is cost effective.

   A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers because of constant changes in supply chains. There are different areas that should be examined for each company that should be considered and should include:

   - Transportation: Does the current transportation strategies help service levels required by the organisation?
   - Outsourcing: Areas of outsourcing of logistics function are to be identified. The effect of partnership with external service providers on the desired service level of organisation is also to be examined.
   - Competitors: Review the procedures adopted by competitors. It is also to be judged whether adopting the procedures followed by the competitors will be overall beneficial to the organisation. This will also help in identifying the areas that may be avoided.
   - Availability of information: The information regarding logistics should be timely and accurate. If the data is inaccurate then the decisions that are made will be incorrect. With the newer technologies it is possible to maintain information on movement of fleets and materials on real time basis.
   - Strategic uniformity: The objectives of the logistics should be in line with overall objectives and strategies of the organisation. They should aid in the accomplishment of major strategies of the business organisation.

7. Refer to Chapter 1. Micro environment affects business and marketing at routine and operating levels. Whereas the changes in the macro environment affect business in the long run, the effect micro environment changes are noticed immediately. Organizations have to closely analyse and monitor all the elements of micro environment in order to stay competitive. Micro environment can be broadly classified as:

   - Consumers/customers
   - Competitors
   - Organization

- Market
- Suppliers
- Intermediaries

8. Refer to chapter 5. Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "4 Ps" of marketing mix. The 4 Ps stand for product, price, place and promotion.

   An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers. Over a period of time different marketers have identified other elements as part of marketing mix but the four Ps remain the crux of marketing mix.

9. According to William F Glueck and Lawrence R Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

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

   Expansion Strategy: Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigour, promise and success. Organisations can diversify, acquire and merge to expand.

   Retrenchment Strategy: A business organization can redefine its business by divesting a major product line or market. The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon each contingency. The enterprise has several options open to it in designing and acting upon its strategy.

   Combination Strategies: The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others.

10. Refer to Chapter 7. In simple words, 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. For example, a customer support engineer of a television manufacturer attends a call within forty-eight hours. If the industry norm is that all calls are attended within twenty-four hours, then the twenty-four hours can be a benchmark.

Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization. Benchmarking can help in almost all aspect of business that are amenable to comparison and are significant to business. Typically organisations can use benchmarking process to achieve improvement in diverse range of management function like:

- Maintenance operations
- Assessment of total manufacturing costs
- Product development
- Product distribution
- Customer services
- Plant utilization levels
- Human resource management

11. 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.

12. Refer to Chapter 4. Crafting and executing strategy are the heart and soul of managing a business enterprise. It is a five-stage managerial process as given below:

    1. Developing a strategic vision of where the company needs to head and what its future product-customer-market-technology focus should be.
    2. Setting objectives and using them as yardsticks for measuring the company's performance and progress.
    3. Crafting a strategy to achieve the desired outcomes and move the company along the strategic course that management has charted.
    4. Implementing and executing the chosen strategy efficiently and effectively.

5. Monitoring developments and initiating corrective adjustments in the company's long-term direction, objectives, strategy, or execution in light of the company's actual performance, changing conditions, new ideas, and new opportunities.

13. A Mission statement tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance. On the other hand, a Vision statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

    A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the differences between vision and mission:

    - The vision describes a future identity while the Mission serves as an ongoing and time-independent guide.
    - The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.
    - A mission statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a vision statement is more specific in terms of both the future state and the time frame. Vision describes what will be achieved if the organization is successful.

    Refer to Chapter 2.

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 judgments.

    In part (a) you need to think and write the ways by which the food chains can confront competition like by developing bigger Dosas, opening the new restaurants etc. (b) Developing newer market through opening the new restaurant are the inferences given in the case study which are adopted by 'Banana Leaf' for its sustainability in the market. (c) For building brand loyalty, food chains must apply their core competencies. In part (d) use your imagination to suggest various strategies for chains for their survival and sustainability in this contemporary competitive environment.

    For answering the questions, you should draw inferences from theoretical concepts of strategic management and integrate them. You should not rely upon unsupported opinions and over generalizations and clearly demonstrate that your interpretations are reasonable, logical and objective.

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Nov 2009

SECTION – B : STRATEGIC MANAGEMENT

QUESTIONS

1. State with reasons which of the following statements are correct/incorrect:
   (a) Businesses function in isolation.
   (b) Competition is bad for the organizations.
   (c) Strategies are perfect, flawless and optimal organisational plans.
   (d) Strategies may require changes in organizational structure.
   (e) Strategic planning is an attempt to improve operational efficiency.
   (f) For a small entrepreneur vision and mission are irrelevant.
   (g) Supply chain management is conceptually wider than logistic management.
   (h) Balanced Scorecard serves both financial and strategic purposes
   (i) With the help of strategies organisations easily outmanoeuvre their rivals.
2. Briefly answer the following questions.
   (a) Discuss profit as business objective as per Peter F Drucker.
   (b) Define augmented marketing.
   (c) What do you understand by Key Success Factors?
   (d) What is Benchmarking?
   (e) Discuss dogs in BCG Matrix.
3. What is Environment? Briefly explain macro environmental factors that affect an organization's strategy.
4. What is diversification? How a firm may diversify?
5. Explain and discuss concept of value chain analyses.
6. What is Strategic Management Process? Briefly explain its each step.
7. What do you understand by logistics strategy? What factors should be considered while developing a logistics strategy?
8. Explain the evolution and importance of business policy and strategic management.
9. Discuss the importance of proper implementation of strategy in strategic management.
10. Discuss six sigma. What is six sigma methodology for new products or services?
11. What is turnaround management? What are various stages in its implementation?
12. Discuss major steps in implementing supply chain management systems in an business organisation
13. Discuss the important areas where human resource manager can play a strategic role.

14. Asian subsidiary of European banking major Cool Bank manages assets of Rs 20,000 crore. Indian private sector bank Easy Ltd has submitted a letter of interest to buy the Asian arm of Cool Bank. The promoters of Easy Ltd are constantly on the lookout for opportunities in line with their ambition of becoming a global leader in the financial services sector. The firm is looking to expand its global footprint, will get access to more products and markets if it manages to acquire Asian arm of Cool Bank. It will also be able to get a presence across Asia. Easy Ltd has engaged major Indian accounting firm as consultants for the deal. The pricing for the Asian arm would depend on the asset composition and also the sustainability of these assets.

    Cool Bank, badly hit by the global financial crisis, is looking to sell its Asian portfolio for over Rs 2,500 crores. However, this portfolio does not include Cool Bank's Indian assets. The European Bank is looking to complete the sale in next three months. Easy Ltd is the only Indian bank interested in acquiring Cool Bank. American financial services firm Swift Money is also in the fray to acquire Cool Bank.

    Cool Bank caters to the high end of retail banking where services include the entire range of banking, investment and other financial services. These services are normally offered to clients with assets under management of more than Rs 10 crore.

    The Indian accounting firm advised a cautious approach in the deal. They felt that global banking industry is in the state of recession. Even very big banks are failing. The environment is not conducive for making major investments. They also felt that after acquisitions such businesses often lose clients. However, Easy Ltd felt that the recession is right time for them to buy as they can close deal at a low price.

    Questions:

    (a) Discuss the strategies of Cool Bank and Easy Ltd.

    (b) What are the implications of presence of Swift Money in the fray?

    (c) Why consultants are recommending cautious approach? Discuss.

    (d) Do you think that the recession is right time for an acquisition? Give reasons for your answer.

    (e) What would be your advice to easy ltd?

SUGGESTED ANSWERS/HINTS

1. (a) Incorrect: Businesses do not function in an isolated manner. They function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually decline.

   (b) Incorrect: All organizations have competition that makes their working challenging. However, competition is neither a coincidence nor bad luck. The nature and extent

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of competition that a business is facing in the market is one of the major factors affecting the rate of growth, income distribution and consumer welfare. Competition makes them work harder, brings innovation and cost economies. The benefit of competition are also enjoyed by the society and the markets in which organisations operate.

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

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

(e) Incorrect: Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. They relate to the top level in the organisation and relate the organisation with its environment. Operational efficiency is not a direct outcome of strategic planning.

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

(g) 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.

(h) Correct: Balance scorecard is a combination of strategic and financial objectives. It measure company performance, requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made.

(i) Incorrect: Although often strategies are aimed at outmanoeuvring rivals, it is not easy task. Competitors are simultaneously developing strategies that act as forces negating strategies of an organisation. Winning is tedious and difficult task.

2. (a) Peter F Drucker was of the view that businesses cannot be explained in terms of profit. The economic criterion of maximising profits for a firm has little relevance in the present times. Profit maximization, in simple terms is selling at a higher price than the cost. Profit maximization is subject to the long-term perspective and

includes development of wealth and several non-financial factors such as goodwill, societal factors, relations and so on.

(b) Augmented marketing refers to deliberate and accelerated efforts to get better marketing returns through additional means. It includes provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

(c) Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.

(d) Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. In simple words, 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.

(e) 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.

3. Environment is sum of several external and internal forces that affect the functioning of business. Businesses function as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are partly exchanged with the external client groups, say customers. The extent to which the business thrives depends on the manner in which it interacts with its environment. 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. Important elements of macro environment are:

- Demographic environment.
- Economic environment.
- Political-Legal Environment.
- Socio-Cultural environment.
- Technological environment.
- Global environment.

Students may briefly explain the above. Refer to chapter 1.

4. Refer to chapter 4. Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

   (i) Vertically integrated diversification.

   (ii) Horizontally integrated diversification.

   (iii) Concentric diversification.

   (iv) Conglomerate diversification.

5. 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. Refer to Chapter 6.

6. Refer to chapter 2. The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then subsequently initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate. The strategy-making/strategy-implementing process consists of five interrelated managerial tasks. These are

   - Setting vision and mission.
   - Setting objectives.
   - Crafting a strategy.
   - Implementing and executing.
   - Evaluating performance and initiating corrective adjustments.

7. Management of logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a logistics strategy it is defining the service levels at which its logistics is smooth and is cost effective.

   A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers because of constant changes in supply chains. There are different areas that should be examined for each company that should be considered and should include:

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- Transportation: Does the current transportation strategies help service levels required by the organisation?
- Outsourcing: Areas of outsourcing of logistics function are to be identified. The effect of partnership with external service providers on the desired service level of organisation is also to be examined.
- Competitors: Review the procedures adopted by competitors. It is also to be judged whether adopting the procedures followed by the competitors will be overall beneficial to the organisation. This will also help in identifying the areas that may be avoided.
- Availability of information: The information regarding logistics should be timely and accurate. If the data is inaccurate then the decisions that are made will be incorrect. With the newer technologies it is possible to maintain information on movement of fleets and materials on real time basis.
- Strategic uniformity: The objectives of the logistics should be in line with overall objectives and strategies of the organisation. They should aid in the accomplishment of major strategies of the business organisation.

8. The origins of business policy can be traced back to 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability. This course was based on interactive case studies which had been in use at the school for instructional purposes since 1908. The course was intended to enhance general managerial capability of students. However, the introduction of business policy in the curriculum of business schools/management institutes came much later. Refer to Chapter 2

9. Refer to chapter 6. Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system.

   There are situations where an organisation formulates a very competitive strategy, but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience, the lack of necessary resources, missing leadership and so on. Unless corrective actions are taken the strategy will fail.

10. Primarily Six Sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones.

For implementing six sigma for new products, processes and services we use DMADV: DMADV is acronym for the steps followed in implementing six sigma. They are:

- Define.
- Measure.
- Analyze.
- Design.
- Verify.

Refer to chapter 7.

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

Action plan for turnaround strategy

(i) Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

(ii) Analyze the situation and develop a strategic plan: Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

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(iii) Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.

(iv) Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.

The 'people mix" is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

(v) Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

12. Successful implementing supply management systems requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

Implementing and successfully running supply chain management system will involve:

(i) Product development: Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.

(ii) Procurement: Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.

(iii) Manufacturing: Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle.

(iv) Physical distribution: Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus supply chain management links a marketing channel with customers.

(v) Outsourcing: Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.

(vi) Customer services: Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn help in producing positive feelings in the organization and the customers

(vii) Performance measurement: There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

13. The human resource strategy of business should reflect and support the corporate strategy. An effective human resource strategy includes the way in which the organization plans to develop its employees and provide them suitable opportunities and better working conditions so that their optimal contribution is ensured. Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance and develop organizational culture that fosters innovation and flexibility. The success of an organization depends on its human resources. The prominent areas where the human resource manager can play strategic role are as follows:

(i) Providing purposeful direction.

(ii) Creating competitive atmosphere.

(iii) Facilitation of change.

(iv) Diversion of workforce.

(v) Empowerment of human resources.

(vi) Building core competency.

(v) Development of works ethics and culture.

Refer to chapter 5.

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 judgments.

    For answering the questions, you should draw inferences from theoretical concepts of strategic management and integrate them. You should not rely upon unsupported opinions and over generalizations and clearly demonstrate that your interpretations are reasonable, logical and objective.

May 2010

SECTION – B : STRATEGIC MANAGEMENT

QUESTIONS

1. State with reasons which of the following statements are correct/incorrect:
   (a) Managers must list and analyse all environmental influences for proper strategic understanding.
   (b) Business function free of external forces influencing it.
   (c) Liquidation is the last resort option for a business organisation.
   (d) Porter's five forces model considers new entrants as a significant source of competition.
   (e) Strategic actions are always in reaction to the changes in environment.
   (f) A core competence is a unique strength of an organization which may not be shared by others.
   (g) Human resource management aids in strategic management.
   (h) Reengineering involves slow and gradual improvement in the existing work processes that occur over a period of time.
2. Write short notes on:
   (a) Retrenchment strategy.
   (b) Marketing.
   (c) Strategic vision
   (d) Augmented marketing.
   (e) Industry
   (f) SWOT analysis
   (g) Business process reengineering
   (h) Value chain
3. Distinguish between:
   (a) Strategy formulation and Strategy implementation.
   (b) Forward and backward integration.
4. Briefly answer any two of the following:
   (a) Define T.Q.M.
   (b) What is Kieretsus?
   (c) What do you understand by ethnic mix?
   (d) What do you understand by the term benchmarking?

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5. Explain the need for a business organization to scan the environment on a continuous basis. Discuss the contemporary developments in the business environment.
6. What are acquisitions? Discuss with example of two companies?
7. Discuss General Electric Model of analysing business portfolio
8. What is marketing Mix? A company launches a new brand of ice creams. It keeps prices much below the prices of similar ice creams that are already in the market. Choose the pricing strategy that is probably being used by the company.
9. What is a Corporate Strategy? How organisations can deal with strategic uncertainty?
10. What do you understand by strategic leadership? Discuss the two approaches to strategic leadership?
11. Discuss major steps in implementing supply chain management systems in an business organization.
12. What are functional strategies? Why are they needed?
13. Briefly describe the generic strategic alternatives given by Glueck and Jauch.
14. Civil Aviation Brain Technologies Ltd (CABT) is a software development company supporting requirement of aviation sector. The company was established more than a decade ago by Rohit Kapoor having experience of working in Silicon Valley. His entrepreneurial desires brought him back to India to promote this company. Started then with a paltry capital of Rs. 3 lakhs, the company, at present, enjoys a valuation of more than 18 crores. Almost everybody acknowledged the competency of CABT in developing customised software for the sector.

    The high growth of the company was mainly on account of the heavy inflows of the capital in the sector from various rich business houses that have diversified into aviation.

    However, CABT saw stagnation in last three years. The order position was dwindling. The margins were also reducing. Last one year was particularly bad for the CABT and its annual sales reduced by 15 % for the first time since its inception.

    Most of the business houses that had entered in the aviation sector, had little prior experience in the industry. However, their desire to diversify and seeing opportunity in the newly opened sector prompted them to invest heavily into the sector.

    However, things did not turn out to be as expected. The tough competition between several players, reduction in the fare by railways and high prices of aviation fuel created problems for the industry. The sector was not able to generate reasonable profits thus resulting difficulty in maintaining operations. They were in need for hard to come by capital. Lately, the sector is witnessing some consolidation with companies planning for mergers or even contemplating closures.

The general global recession also resulted in the reduction of travel expenditure of corporates resulting in decrease in the order position of CABT.

(a) Discuss the nature of diversification by the business houses entering into aviation sector.

(b) Discuss the importance of remaining in the area of expertise for the business houses.

(c) What went wrong in the aviation sector?

(d) Is it appropriate for CABT to remain in the software development for aviation sector alone?

(e) What are the options available for Rohit Kapoor?

SUGGESTED ANSWERS/HINTS

1. (a) Incorrect: The environment encapsulates many different influences. The difficulty is in making sense of this diversity in a way which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be of much use.

(b) Incorrect: Businesses function within their relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually decline.

(c) Correct: Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities a firm could pursue, and the stigma of failure. The company management, government, banks and financial institutions, trade unions, suppliers, creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation.

(d) Correct: Porter’s five forces model considers new entrants as major source of competition. The new capacity and product range that the new entrants bring in throw up new competitive pressure. The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

(e) Incorrect: Strategic actions are typically a blend of (1) proactive actions on the part of managers to improve the company's market position and financial performance and (2) as needed reactions to unanticipated developments and fresh market conditions and developments.

(f) **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.

(g) **Correct**: The human resource management helps the organization to effectively deal with the external environmental challenges. The function has been accepted as a 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.

(h) **Incorrect**: Reengineering does not involve slow and gradual improvement in the existing work processes. It is a revolutionary approach towards radical and total redesigning of the business processes.

2. **(a)** Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment. A business organization can redefine its business by divesting a major product line or market. Retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse effects, or even to regroup and recoup the resources.

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

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

(d) Augmented marketing refers to deliberate and accelerated efforts to get better marketing returns through additional means. It includes provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

(e) Industry is a consortium of firms whose products or services have homogenous attributes or are close substitutes such that they compete for the same buyer. For example, all paper manufacturers constitute the paper industry.

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

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.

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

Opportunity: An opportunity is a favourable condition in the external environment which enables it to strengthen its position.

Threat: An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

(g) Business process reengineering refers to the analysis and redesign of workflows both within and between the organisation and the external entities. Its objective is to improve performance in terms of time, cost, quality, and responsiveness to customers. It implies giving up old practices and adopting the improved ones. It is an effective tool of realising new strategies.

Improving business processes is paramount for businesses to stay competitive in today's marketplace. New technologies are rapidly bringing new capabilities to businesses, thereby raising the strategical options and the need to improve business processes dramatically. Even the competition has become harder. In today's market place, major changes are required to just stay even. It has become a matter of survival for most companies.

(h) Value chains facilitates procurement of whole range of inputs that are required to produce a product or service so that the process can be performed in an integrated and optimum manner. Vendors, transporters, and buyers are the components of the value chain and share the benefits of such chains.

Value chain recognises organisations as 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.

3. **(a)** Distinction between strategy formulation and strategy implementation: Although inextricably linked, strategy implementation is fundamentally different from strategy formulation in the following ways:

(i) Strategy formulation is positioning forces before the action. Strategy implementation is managing forces during the action.

(ii) Strategy formulation focuses on effectiveness whereas strategy implementation focuses on efficiency.

(iii) Strategy formulation is primarily an intellectual process whereas implementation of strategy is primarily an operational process.

(iv) Strategy formulation requires good intuitive and analytical skills while strategy implementation requires special motivation and leadership skills.

(v) Strategy formulation requires coordination among a few individuals while strategy implementation requires organization wide coordination.

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

Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. While forward integration is moving forward in the value chain and entering business lines that use existing products.

4. **(a)** Total Quality Management: TQM or Total Quality Management is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organisation and the supply chain is responsible for preventing rather than detecting defects.

TQM 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.

(b) *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.

(c) Ethnic mix reflects the changes in the ethnic make-up of a population and has implications both for a company's potential customers and for the workforce. Issues that should be addressed include:

- What do changes in the ethnic mix of the population imply for product and service design and delivery?
- Will new products and services be demanded or can existing ones be modified?

- Managers prepared to manage a more culturally diverse workforce?

  How can the company position itself to take advantage of increased workforce heterogeneity?

(d) Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. In simple words, 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.

5. Refer to Chapter 1. Environmental analysis helps strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm's advantage. Because of the difficulty in assessing the future and its dynamism, all future events can not be anticipated. However, some future events can be and are anticipated. The extent to which a few or more events are anticipated through the process of the analysis and diagnosis, will reflect in the quality of managerial decisions. The managers can also concentrate on a few major events, instead of dealing with all the environmental influences. In general, environmental analysis has three basic goals as follows:

1. The analysis should provide an understanding of current and potential changes taking place in the environment.
2. Environmental analysis should provide inputs for strategic decision making.
3. Environment analysis should facilitate and foster strategic thinking in organizations-typically a rich source of ideas and understanding of the context within which a firm operates.

A lot of changes are occurring within India and across the globe affecting the business. Students should list out different elements of macro environment and discuss the contemporary developments in each of the area. They may develop their answers to cover different elements of environment.

For example in the economic environment, students may briefly list out the impact of the global recession on the Indian Business. They may list different factors such as difficulty in financing through primary market, inflation, low demand in certain sectors such as real estate etc. As far as social environment is concerned a new culture is evolving in the country on account of increased global interaction and impact of mass media. There is also increase in awareness. The developments in the legal environment including introduction of new direct tax code, limited liability partnership, GST, etc. have their own bearing on the business.

6. Refer to Chapter 2. Acquisition of or merger with an existing concern is an instant means of achieving the expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denote that the positive effects of the merged resources are greater than the some of the effects of the individual resources before merger or acquisition.

Students may give two examples from the industry. Some of the recent / popular instances of acquisition are listed below:

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

7. Refer to chapter 3. Portfolio analysis is a tool by which management identifies and evaluates the various businesses that make up the company. In portfolio analyses top management views its product lines and business units as a series of investments from which it expects returns. The General Electric Model uses two factors in a matrix / grid situation as shown below:

Market Attractiveness	***Business Position*** →	High	Medium	Low
	High	Invest	Invest	Protect
	Medium	Invest	Protect	Harvest
	Low	Protect	Harvest	Divest

8. Refer to Chapter 5. Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "4 Ps." The 4 Ps stand for product, price, place and promotion. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers.

A company trying to keep the prices of new brand of ice creams too low is trying to penetrate the market. In penetration prices are initially kept at relatively low levels. This is done to attract customers. It is expected that the price sensitive customers will switch to the new brand because of the lower price. The strategy helps in increasing market share or sales volume.

9. Refer to chapter 4. We can describe corporate strategy as the objective-strategy design of the firm. To arrive at such an objective-strategy design is the basic burden of corporate strategy formulation. Strategic uncertainty, uncertainty that has strategic implications, is a key construct in strategy formulation. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

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

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

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

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

Transactional leadership style may be appropriate in 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.

11. Refer to chapter 5. Successful implementing supply management systems requires a change from managing individual functions to integrating activities into key supply chain

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processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

Implementing and successfully running supply chain management system will involve:

1. Product development
2. Procurement
3. Manufacturing
4. Physical distribution
5. Outsourcing
6. Customer services
7. Performance measurement

12. Refer to chapter 5. Strategists are required to provide direction to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. Functional area strategy such as marketing, financial, production and human resource are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then follows a discussion of each of these sub functional areas regarding the content of functional strategies, important factors, and their importance in the process of strategy implementation.

Major strategies need to be translated to lower levels to give holistic strategic direction to an organization. The reasons why functional strategies are needed can be enumerated as follows:

- The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.
- Functional strategies assist in flow of strategic decisions to the different parts of an organization.
- They act as basis for controlling activities in the different functional areas of business.
- The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.
- Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

13. Refer to Chapter 2. According to William F Glueck and Lawrence R Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combination strategies.

- Stability strategies
- Expansion Strategy
- Retrenchment Strategy
- Combination Strategies

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 judgments.

In part (a), students may write about unrelated conglomerate diversification being undertaken by business houses. In part (b) discuss the concept of core competency and its importance. In part (c) some of the problems that have been listed in the case may be explained. In part (d) discuss the risks involved in catering only to a limited customer. Lastly, in part (e), discuss in general the options Rohit has in your own opinion.

For answering the questions, you should draw inferences from theoretical concepts of strategic management and integrate them. You should not rely upon unsupported opinions and over generalizations and clearly demonstrate that your interpretations are reasonable, logical and objective. You may also take cues from what you have learnt from newspapers and other business magazines.

Pre-examination Notes - Strategic Control

Control is one of the important functions of management, though it is often regarded as the core of the management process. It is a function intended to ensure and make possible the performance of planned activities and to achieve the pre-determined goals and results. Control is intended to regulate and check, *i.e.,* to structure and condition the behaviour of events and people, to place restraints and curbs on undesirable tendencies, to make people conform to certain norms and standards, to measure progress to keep the system on track. It is also to ensure that what is planned is translated into results, to keep a watch on proper use of resources, on safeguarding of assets and so on.

The control function involves monitoring the activity and measuring results against pre-established standards, analysing and correcting deviations as necessary and maintaining/adapting the system. The task of control is intended to enable the organisation to continuously learn from its experience and to improve its capability to cope with the demands of organisational growth and development.

Control is process within the broader management process. Within any control system, the following elements are identifiable:

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

(b) A mechanism for monitoring and measuring the characteristics 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 instruction to the system, for effecting the desired changes to set right the system to keep it on course.

Primarily there are three types of organizational control, viz., operational control, management control and strategic control

Operational control

The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. The control activity consists of regulating the processes within certain 'tolerances', irrespective of the effects of external conditions on the formulated standards, plans and instructions. Some of the examples of operational controls can be stock control (maintaining stocks between set limits), production control (manufacturing to set programmes), quality control (keeping product quality between agreed limits), cost control (maintaining expenditure as per standards), budgetary control (keeping performance to budget).

Management Control

When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units.

The basic purpose of management control is the achievement of enterprise goals – short range and long range – in a most effective and efficient manner. The term is defined by Robert Anthony as 'the process by which managers assure the resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives. Controls are necessary to influence the behaviour of events and ensure that they conform to plans.

Strategic Control

"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."

– Schendel and Hofer:

Strategies once formulated are not immediately implemented. There is time gap between the stages of strategy formulation and their implementation. Strategies are often affected on account of changes in internal and external environments of organisations. There is need for warning systems to track a strategy as it is being implemented. Strategic control is the process of evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments.

Type of Strategic Control: There are four types of strategic control as follows:

- **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

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

  (ii) Industry factors such as competitors, suppliers, substitutes.

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

- **Strategic surveillance:** Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, meetings, conferences, discussions at clubs or parties and so on can help in strategic surveillance.

  Strategic surveillance may be loose form of strategic control, but is capable of uncovering information relevant to the strategy.

- **Special alert control:** At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy. Organizations to cope up with these eventualities, form crisis management teams to handle the situation.

- **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 associated with incremental steps and actions.

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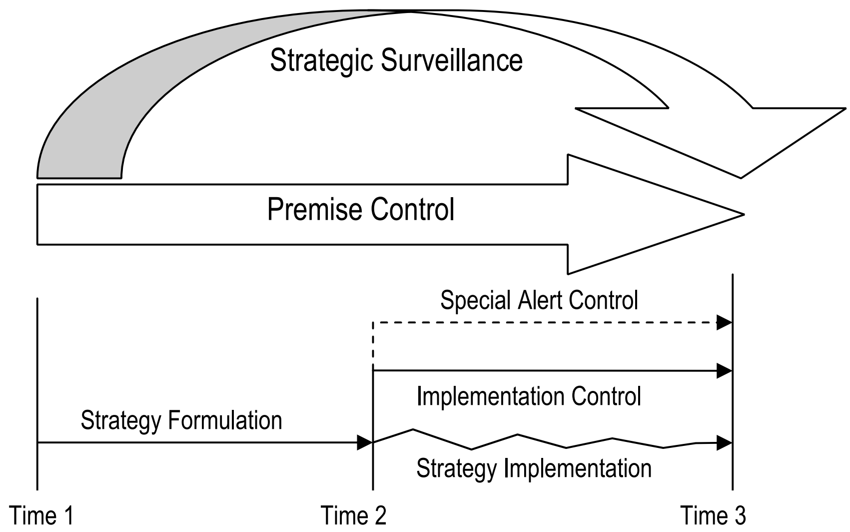
Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basis form of implementation control are:

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

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



These four strategic controls steer the organisation and its different sub-systems to the right track. They help the organisation to negotiate through the turbulent and complex environment.

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SECTION – B: STRATEGIC MANAGEMENT

QUESTIONS

1. State with reasons which of the following statements are correct/incorrect:
   - (a) A kieretsu is a group of companies from unrelated industries cooperating with each other.
   - (b) Conglomerate diversification is where a firm diversifies into unrelated areas.
   - (c) Key success factors vary from industry to industry.
   - (d) Corporate strategy is basically the growth design of the firm.
   - (e) Augmented marketing is a provision of reducing customer services and benefits.
   - (f) Logistics management is conceptually wider than supply chain management.
   - (g) Corporate vision is the base of all strategies.
   - (h) Network structure provides an organization to concentrate on its distinctive competencies.
   - (i) Strategic management can not be used effectively in non commercial organizations.
   - (j) Benchmarking is an approach of setting goals and measuring productivity based on best industry practices.
   - (k) BPR focuses on all business processes.
2. Write short note on:
   - (a) Strategic Business Unit
   - (b) Core Competence
   - (c) Concentric Diversification
   - (d) Competitive advantage
   - (e) Forward and Backward Linkages
3. Porter's five forces model explains the five areas of the overall market where the competitive pressure exist. Explain them.
4. Discuss the process of strategic management.
5. Discuss strategic alternatives with reference to Michael Porter's strategies.
6. What is strategic management? What benefits accrue by following a strategic approach to managing?
7. What is human resource management? Discuss its role in implementation of strategy.

8. What is strategic implementation? How far is it different from strategy formulation?
9. Explain the BCG model as a technique of portfolio analysis.
10. "Structure undeniably can and does influence strategy." Critically examine this statement.
11. Explain the strategy-shaping characteristics of the E-commerce environment.
12. Define TQM? Explain the various principles that guide success of TQM.
13. Discuss PESTLE analysis as tool of environment scanning.
14. Explain the various methods of competitive analysis of an Industry.
15. Rajiv Chadha, CEO of the Soft Vision Enterprises was in the business of manufacturing and marketing electronic goods in India for last fifteen years. The business with his close supervision has gradually expanded to become a major electronic goods brand in the country. The strength of the company was in its vast distribution network. It also had products both for rural market and urban market. Recently, it opened multi-brand stores in seventeen metropolitan / large cities. The multi-brand stores were designed to have an exclusive area for its own brand.

    Recently, Rajiv signed a five year agreement with Europe based New Vision Electronics to make and sell the thirty old 'Newvi' brand televisions in India. The deal with New Vision Electronics, a household name that once dominated the country's radio and audio cassette player market before the Korean invasion, will help Soft Vision better challenge other established brands in the Indian television market. The move will help Soft Vision Enterprises get access to advanced global technology and help it to grow faster in the country. The company of Rajiv Chadha will pay a royalty of around 4% to the European consumer electronics firm on the sales.

    Under the terms Soft Vision Enterprises will manufacture the television as per the specifications and standards of New Vision Electronics. The agreement is very tightly done to ensure that there are very strict guidelines about the quality parameters to that Indian consumer get access to the best that 'Newvi' brand can offer. Under the agreement, both the parties have formed a brand committee to keep a close watch on the designing, branding and quality parameters. There is also provision to extend the deal by another five years.

    According to New Vision Electronics, the move is consistent with the company's objective to bring the television business back to profitability in India. It would also reduce help them to concentrate more in their core markets, where they are facing recession related problems. The European major is also seriously considering making India a low-cost manufacturing hub for televisions through this deal.

However, a news report in a financial market has raised scepticism over the deal. They wrote that in spite of the deal the Soft Vision Enterprises will promote its own brands. There would be conflict of interest. Further, in highly competitive and price conscious market it would be very difficult for a premium brand to survive.

Questions

(a) Discuss the advantages for Soft Vision Enterprises through this deal.

(b) Is the price important for marketing television? How?

(c) Do you agree with the reports in the financial papers raising doubts on the deal? Discuss.

(d) How the deal is beneficial to New Vision Electronics?

SUGGESSTED ANSWERS/HINTS

1. (a) Incorrect: *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.

(b) Correct: When an established firm introduces a new product which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups, the process is known as conglomerate diversification. Both the technology of the product and of the market is different from the firm's present experience.

(c) Correct: Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change. Only rarely does an industry have more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance.

(d) Correct: Corporate strategy in the first place ensures the growth of the firm and ensures the correct alignment of the firm with its environment. It serves as the design for filling the strategic planning gap. It spells out the growth objective of the firm - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth.

(e) Incorrect: Augmented marketing is a provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

(f) Incorrect: 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 involves delivering the right product at the right time to the right place and at the right price.

(g) **Correct:** Vision explains where the organization is headed, so as to provide long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organization with a sense of purpose. All strategies need to be drawn in the light of corporate vision, which is what the firm ultimately wants to become.

(h) **Correct:** The network organization structure provides an organization with increased flexibility and adaptability to cope with rapid technological change and shifting patterns of international trade and competition. It allows a company to concentrate on its distinctive competencies, while gathering efficiencies from other firms who are concentrating their efforts in their areas of expertise.

(i) **Incorrect:** The strategic-management process can be and is also being used effectively by several non-profit governmental organizations. There are not-for-profit organizations that outperform other firms and corporations in terms of innovativeness, motivation, productivity, and strategic management.

(j) **Correct:** Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization.

(k) **Incorrect:** BPR focuses on such critical business processes out of the many processes that go on in any company. These are the core business processes of the company. A core business process creates value by the capabilities it provides to the competitiveness. Core business processes are critical in a company's evaluation by its customers. They are vital for success in the industry sector within which the company is positioned. They are crucial for generating competitive advantages for a firm in the marketplace.

2. **(a)** A strategic business unit (SBU) is an operating division of firm which serves a distinct product-market segment or a well-defined set of customers or a geographic area. The SBU is given the authority to make its own strategic decisions within corporate guidelines as long as it meets corporate objectives.

(b) 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.

(c) Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.

However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.

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

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

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

3. Refer to chapter 1. Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the over all market. These five forces are:

1. **Threat of new entrants:** New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.
2. **Bargaining power of customers:** This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial

products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.

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

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

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

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

4. Refer to chapter 2. The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then overtimes initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

The basic framework of strategic process can be described in a sequence of five stages as shown in the figure - Framework of strategic management: The five stages are as follows:

Stage one - Where are we Now? (Beginning): This is the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context. Here the firm must find out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities. This is also known as SWOT (Strength, Weakness, Opportunity, Threat) analysis. You may refer third chapter for a detailed discussion on SWOT analysis.

Stage two: - Where are we Want to Be? (Ends): This is a process of goal setting for the organization after it has finalised its vision and mission. A strategic vision is a roadmap of the 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.

An organization's Mission states what customers it serves, what need it satisfies, and what type of product it offers.

Stage three - How Might we Get There? (Means): Here the organization deals with the various strategic alternatives it has.

Stage four - Which Way is Best? (Evaluation): Out of all the alternatives generated in the earlier stage the organization selects the best suitable alternative in line with its SWOT analysis.

Stage five - How Can we Ensure Arrival? (Control): This is an implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages again.

5. 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 base 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's strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.

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.**

6. Refer to chapter 5. In a highly competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must have a system of managing strategically.

Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilise all facets of the organisation), and functional plans (plans to carry out daily operations from the different functional disciplines).

The overall objective of strategic management is two fold:

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

The following are the benefits of strategic approach to managing:

- Strategic management helps organizations to be more proactive instead of reactive in shaping its future.
- 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.
- Strategic management is concerned with ensuring a good future for the firm.
- Strategic management serves as a corporate defense mechanism against mistakes and pitfalls.

7. Refer to chapter 5. The human resource strategy of business should reflect and support the corporate strategy. An effective human resource strategy includes the way in which the organization plans to develop its employees and provide them suitable opportunities and better working conditions so that their optimal contribution is ensured. Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance and develop organizational culture that fosters innovation and flexibility. The success of an organization depends on its human resources.

Strategic Role of Human Resource Management

The prominent areas where the human resource manager can play strategic role are as follows:

- Providing purposeful direction
- Creating competitive atmosphere
- Facilitation of change
- Diversion of workforce
- Empowerment of human resources
- Building core competency
- Development of works ethics and culture

8. 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.

9. Refer to Chapter 3. Boston consulting group (BCG) growth-share matrix is the simplest way to portray an organisation's portfolio of investments. Growth share matrix is 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.

- 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.

Using the matrix, organisations can identify four different types of products or SBU as follows:

- Stars
- Cows
- Question marks
- Dogs

10. Refer to chapter 6. Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategies. We examine this Issue by focusing on seven basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

- The Functional Structure
- The Divisional Structure
- The Strategic Business Unit (SBU) Structure
- The Matrix Structure

11. Refer to chapter 7. We need to understand how growing use of the Internet by businesses and consumers reshapes the economic landscape and alters traditional industry boundaries. The following characteristics of the strategy-shaping E-Commerce environment are:

- The Internet makes it feasible for companies everywhere to compete in global markets.
- Competition in an industry is greatly intensified by the new e-commerce strategic initiatives of existing rivals and by the entry of new, enterprising e-commerce rivals.
- Entry barriers into the e-commerce world are relatively low.

- Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors.
- The Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and, further, to collaborate closely with them to achieve efficiency gains and cost savings.
- Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions.
- The internet results in much faster diffusion of new technology and new idea across the world.
- The e-commerce environment demands that companies move swiftly.
- E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains.
- The Internet can be an economical means of delivering customer service.
- The capital for funding potentially profitable e-commerce businesses is readily available.
- The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how.

12. Refer to chapter 7. TQM or Total Quality Management is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organisation and the supply chain is responsible for preventing rather than detecting defects.

TQM 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.

Principles guiding TQM

Implementing TQM requires organization wide support. There are several principles that guide success of TQM. Various principles that guide the total quality management philosophy are as follows:

- A sustained management commitment to quality
- Focusing on the customer
- Preventing rather than detecting defects
- Universal quality responsibility
- Quality measurement
- Continuous improvement and learning
- Root cause corrective action

- Employee involvement and empowerment
- The synergy of teams
- Thinking statistically
- Inventory reduction
- Value improvement
- Supplier teaming
- Training

13. The term PESTLE is used to describe a framework for analysis of macro environmental factors. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. PESTLE is an acronym for political, economic, socio-cultural, technological, legal and environmental factors. The PESTLE analysis is a simple to understand and quick to implement. The advantage of this tool is that it encourages management into proactive and structured thinking in understanding the business environment and in decision making.

Factors in PESTLE Analysis

- **Political** factors include the prevalent political ideology of government governing the country and its markets. The factors include the nature and extent of government involvement and intervention in the economy and the activities of business. Political factors may also cover goods and services that the government wants to be provided to the society and those that the government wants to be kept under close supervision and control. The political factors also determine the focus area and policies on key areas such as health, education and infrastructure in the country.
- **Economic** factors have major impact on how businesses operate and take decisions. The efficiency of financial markets and policies of central bank have bearing on the businesses. For example, interest rates affect a firm's cost of capital. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy. The money supply, inflation, credit flow, per capita income, growth rates are often considered while taking business decisions.
- **Social** factors include taste, preferences, culture, demographic factors and so on. They affect the demand for a company's products and the manner it conducts its business. Social factors can affect a business in major and minor way. For example, social factors can be a strong base to decide location of plant and machinery.
- **Technological** factors can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.
- **Legal** factors include the laws and regulations within which businesses are being conducted. They include laws on different aspect of business such as competition,

safety, working conditions and taxes. Prevailing laws and the benefits available within them can be a strong reason to influence major decisions. For example, plant may be located in a particular state on account of availability of tax benefits.

- **Environmental** factors connotes natural environment in Pestle Analyses. It includes whether and climate of a particular place. Ecological factors and natural environment significantly influences sectors such agriculture, fisheries, tourism. The awareness to climatic change is also affecting the businesses in a big way. Controlling carbon emissions is an uphill challenge facing industry and nations. It has also helped in evolving new businesses such as trade in carbon credits.

By using pestle analyses, it is possible to identify a number of key environmental influences. Different factors may be considered in a matrix for a clear understanding of them and basing strategic decisions.

The PESTLE Matrix

Political • Political stability • Political principles and ideologies • Government policies • Government term and change • Thrust areas of political leaders.	**Economic** • Income • Market conditions and trade cycles • Specific industry factors • Customer/end-user drivers • Interest and exchange rates • Inflation and unemployment
Social • Lifestyle trends • Demographics • Consumer attitudes and opinions • Brand, company, technology image • Consumer buying patterns • Ethnic/religious factors • Media views and perception	**Technological** • Replacement technology/solutions • Maturity of technology • Manufacturing processes and capacity • Innovation potential of technology • Technology access, licensing, patents • Intellectual property rights and copyrights
Legal • Business and Corporate Laws • Laws governing employment. • Laws on competition • Health & Safety • Taxation • International Treaties	**Environmental** • Ecological/environmental issues • Environmental hazards • Environmental legislation • Energy consumption • Waste disposal

14. Refer to chapter 3. Industry and competitive analysis can be done using a set of concepts and techniques to get a clear fix on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry's profit outlook. It provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for company funds. The analysis entails examining a company's business in the context of a much wider environment. Industry and competitive analysis aims at developing insight in several issues. Analysing these issues build understanding of a firm's surrounding environment and, collectively, form the basis for matching its strategy to changing industry conditions and competitive realities. The issues are given below:

- Dominant economic features of the industry
- Nature and strength of competition
- Triggers of change
- Identifying the companies that are in the strongest/weakest positions
- Likely strategic moves of rivals
- Key factors for competitive success
- Prospects and financial attractiveness of industry

15. 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 judgments.

In part (a) students may write about the direct advantages that accrue to them by having an established brand in their portfolio. The company will also be able to synergies their existing manufacturing facilities and distribution network to increase their volumes. It is an action directed towards the growth of company.

In part (b) write about how price sensitive customers may take decisions. Gradually, the difference in the preferences for one or two brands is reducing. Customers are readily experimenting new brands. In such a scenario price becomes an important influencer of purchase decision. However, there will always be loyal customers who will continue with their preferred brands.

In part (c) clearly give your views on the issues raised by the reports in the financial papers. The newspaper report may not be without any substance. Possibility lies that the Soft Vision will promote its own brand over the brands of European company. However, at the same time, it is also a possibility that the Soft Vision genuinely sells the Newvi brand of products. The actual scenario will emerge only over a period of time. It is also important to know what are the exact terms for marketing of the products. The New Vision must have built enough safety measures to safeguard their own interest.

In part (d) students may highlight that the New Vision will be assured of revenue as a percentage of total sales. Manufacturing activity or the costs would not be a matter of botheration for them. Their involvement would be limited to check and ensure the quality for which the brand is known. Further, the deal may be a good opportunity for European company to base India as a low-cost manufacturing hub for sourcing televisions for other markets.

For answering the questions, students should draw inferences from theoretical concepts of strategic management and integrate them. You should not rely upon unsupported opinions and over generalizations and clearly demonstrate that your interpretations are reasonable, logical and objective. You may also take cues from what you have learnt from newspapers and other business magazines.

PROFESSIONAL COMPETENCE EXAMINATION : MAY, 2011

SECTION – B: STRATEGIC MANAGEMENT

QUESTIONS

1. State with reasons which of the following statements are correct/incorrect:
   (a) An opportunity is an inherent capacity which an organization can use to gain strategic advantage over its competitors.
   (b) The term PESTLE is used to describe a framework for analysis of macro environmental factors.
   (c) Retrenchment strategy is implemented by redefining the business by adding the scope of business.
   (d) Changes in strategy may lead to changes in organizational structure.
   (e) SWOT analysis merely examines external environment of an organization.
   (f) Cost leadership attempts to gain a competitive advantage.
   (g) Demarketing is a marketing strategy to destroy the marketing strategy of the competitor.
   (h) Culture promotes better strategy execution.
   (i) The Internet can be an economical means of delivering customer services.
2. Write short note on:
   (a) Socio-cultural environment
   (b) Define strategic vision.
   (c) Explain Divestment Strategy.
   (d) Explain Transformational leadership style.
   (e) Cash cows in BCG matrix.
3. Explain in brief the different levels of strategic management.
4. Described in detail the SWOT analysis. Also explain the significance of SWOT analysis in an organization.
5. Why do organizations undertake portfolio analysis?
6. Define Six Sigma. Explain in brief the themes of Six Sigma.
7. In what terms organization is related with environment?
8. Write an explanatory note on strategic business units.
9. What is supply chain management? Is it same as logistics management? Discuss.
10. Explain how technological factors present an opportunity as well as threat to a particular business organization.
11. Explain the concept of value chain analysis.

12. What are the various bases on which an existing firm can diversify strategically?
13. What is TQM? Compare it with traditional management practices.
14. X The Value Chain Company is one of the largest Companies in the world and has been a huge success in a very short span of time. The key components which contributed to the huge success of the Company are that it offers cheap prices than its competitors, includes firm infrastructure like economic culture, no regional offices and pleasant environment to work. Management conducts various visits and it is learnt there are no rehearsals before any meeting which is usually scheduled on every saturday. In any organization, human resource is the key to development and X Company efficiently manages its sources. X Company terms its employees as associates. Manager compensation is related to the profit of store operated by him, within promotions, compensation offered to associates depending on company's profits and also offered some incentives on their performances. The workforce at X Company's not unionized as the company takes all the measures of their benefits and provides them training on related issues. Technology plays a vital role in development of the organization and X Company is well equipped with technological innovations like electronic check out at point of sale, store performance tracking, real time market research, satellite system and universal product code. The other factors that enhance the margin of profit for X Company are inbound logistics with frequent replacement, automated data capture solutions, flow of goods in an unbroken sequence from receiving to dispatching by eliminating storage, electronic data interchange etc. X Company's strategy in terms of its operation is very unique as it applies various methods like opening big stores in small towns with monopoly in the market at low rental costs, local prices, encashing brand name, concentric expansion, little space for inventory, store within store, etc. Store managers have made responsible as they are given liability to fix the range of pricing. All the above factors combined together increases the margin of profits through bulk sales. At the same time it has helped to boost the confidence level of customers with services like point of sale information system and everyday low prices.

    QUESTIONS

    1. What are the key factors responsible for X Company's success?
    2. What do you mean by competitive advantage? Also mention the competitive advantage of X Company?
    3. What strategies were followed by X Company to outmaneuver competitors?

SUGGESSTED ANSWERS/HINTS

1. (a) Incorrect: An opportunity is not an inherent capacity of any organization. It is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides.

(b) Correct: The term PESTLE is used to describe a framework for analysis of macro environmental factors. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy.

(c) Incorrect: Retrenchment strategy is implemented by redefining its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal.

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

(e) Incorrect: SWOT analysis presents the information about both external and internal environment in a structured form to compare external opportunities and threats with internal strengths and weaknesses. This helps in matching external and internal environments so that strategic decision makers in an organisation can come out with suitable strategies by identifying patterns of relationship and develop suitable strategies.

(f) Correct: A firm pursuing a cost-leadership strategy attempts to gain a competitive advantage primarily by reducing its economic costs below its competitors. A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts.

(g) Incorrect: 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 over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

(h) Correct: Strong cultures in an organisation promote good strategy execution when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution.

(i) Correct: The Internet can be an economical means of delivering customer service. It provides innovative opportunities for handling customer service activities. Companies are discovering ways to deliver service online, thus curtailing the need

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to keep company personnel at the facilities of major customers, reducing staffing levels at telephone call centres, and cutting the time required for service technicians to respond to customer faxes and e-mail messages.

2. **(a)** Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated. The core beliefs of a particular society tend to be persistent. It is difficult for businesses to change these core values, which becomes a determinant of its functioning.

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

(c) Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

A divestment strategy may be adopted due to various reasons:

(i) A business that had been acquired proves to be a mismatch and cannot be integrated within the company.

(ii) Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.

(iii) Severity of competition and the inability of a firm to cope with it may cause it to divest.

(iv) Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.

(v) A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

(d) Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit

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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.

(e) 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.

3. Refer to chapter 2. There are three main levels of management: corporate, business, and functional. General managers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility. 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, formulating and implementing strategies that span individual businesses, and providing leadership for the organization. It is not his specific responsibility to develop strategies for competing in the individual business areas, such as financial services. The development of such strategies is the responsibility of the general managers in these different businesses or business level managers. Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. 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.

4. 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.

5. Refer to chapter 3. In order to analyse the current business portfolio, the company must conduct portfolio analysis (a tool by which management identifies and evaluates the various businesses that make up the company). In portfolio analyses top management views its product lines and business units as a series of investments from which it expects returns. A business portfolio is a collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.

Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multi product and multi business firms. They may also be used in less-diversified firms, if these consist of a main business and other minor complementary interests. The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that posses the greatest potential. For instance, a diversified company may decide to divert resources from its cash-rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives in an optima manner.

In order to design the business portfolio, the business must analyse its current business portfolio and decide which business should receive more, less, or no investment. Depending upon analyses businesses may develop growth strategies for adding new products or businesses to the portfolio.

There are three important concepts, the knowledge of which is a prerequisite to understand different models of portfolio analysis is Strategic Business Unit, Experience Curve and Product Life Cycle.

6. Refer to chapter 7 Meaning of Six Sigma: Primarily Six sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones. Six sigma has its base in the concept of probability and normal distribution in statistics. Six sigma strives that 99.99966% of products manufactured are defect free.

Six themes of six sigma

The critical elements of six sigma can be put into six themes as follows:

- **Theme one** – genuine focus on the customer
- **Theme two** – data and fact-driven management
- **Theme three** – processes are where the action is
- **Theme four** – proactive management
- **Theme five –** boundaryless collaboration
- **Theme six** – drive for perfection; tolerate failure

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7. Refer to chapter 1. In delineating the relationship between the organization and the environment, one has to be clear on the diversity of both these entities. On the one hand, the nature of relationship depends on the size of the organization, its age, the nature of business, the nature of ownership, degree of professionalization of management, etc. On the other hand, the relationship depends on the fact whether the external environmental elements behave in a random or structured manner (uncertainty *v.* predictability), whether such elements are placid or turbulent, whether they are slow-changing or fast changing, whether they are simple or complex, and so forth. The degree of interaction between the organization and the external environment is set by the above characteristics. It follows therefore that all organizations do not behave in the same way in relation to their external environment. Their structures and functions are shaped in tune with the demands of the external environment.

The relationship between the organization and its environment may be discussed in terms of interactions between them in several major areas which are outlined below:

- Exchange of information
- Exchange of resources
- Exchange of influence and power

8. 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.

9. Refer to chapter 5. The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners – suppliers, intermediaries, other service providers and customers.

Supply chain management is defined as the process of planning, implementing, and controlling the supply chain operations. It is a cross-functional approach to managing the movement of raw materials into an organization and the movement of finished goods out of the organization toward the end-consumer who are to be satisfied as efficiently as possible. It encompasses all movement and storage of raw materials, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption. Organizations are finding that they must rely on the chain to successfully compete in the global market.

Is logistic management same as supply chain management?

Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Although these activities also form part of Supply chain management, the latter has different components. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

10. Refer to chapter 1. Technology is the most dynamic of all the environmental factors. An individual enterprise is concerned with the dynamics of its product and process technology, research and development activities in the industry and elsewhere, innovations in products and processes, technological obsolescence and so on. Changes in technology vitally affect the enterprise's costs, profitability, plant location decisions, product lines, growth and development.

The technology and business are highly interrelated and interdependent also. Technology is patronized by business. Technology also drives business and makes a total change on how it is carried out.

Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage. For example, an innovative and modern production system can act as weakness if the business is not able to change their production system. New entrants or existing competitors can always use availability of technological improvements in products or production methods that can be a threat to a business.

Technological opportunities and threats are not limited to the product or production. Technology permeates whole gambit of business. It can transform how a business acts and functions.

11. 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.

12. Refer to chapter 4. Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

(i) Vertically integrated diversification

(ii) Horizontally integrated diversification

(iii) Concentric diversification

(iv) Conglomerate diversification

13. Refer to chapter 7. Total Quality Management is a people focused management system that aims at continual increase in customer satisfaction at continually lower real cost.

TQM 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.

TQM and traditional management practices

TQM is quite different from traditional management practices, requiring changes in organizational processes, beliefs and attitudes, and behaviours. "Traditional management" means the way things are usually done in most organizations in the absence of a TQM focus. Many "traditional" organizations have been applying TQM principles all along, so not all of these comments pertain to every organization. The nature of TQM differs from common management practices in many respects. Some of the key differences are as follows:

- Strategic Planning and Management
- Changing Relationships with Customers and Suppliers
- Organizational Structure
- Organizational Change

- Teamwork
- Motivation and Job Design

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 judgments.

In part (a) students may write about the factors which are responsible for the success of X company whether it may be offering cheap prices than its competitors, its human resource, its technical innovations, its marketing strategies etc.

In part (b) write about the meaning of competitive advantage. Further, students should explain the points where the X Company gets edge over its competitors. What strategies are being taken by the company to avail competitive advantage?

In part (c) students should find out that what strategies are being followed by X Company to cope up with its competitors. Then explain these strategies with context to X Company.

For answering the questions, students should draw inferences from theoretical concepts of strategic management and integrate them. You should not rely upon unsupported opinions and over generalizations and clearly demonstrate that your interpretations are reasonable, logical and objective. You may also take cues from what you have learnt from newspapers and other business magazines.

Nov 11

PAPER – 6 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION – B : STRATEGIC MANAGEMENT

QUESTIONS

1. (i) State with reasons which of the following statements are correct/incorrect:
   - (a) BCG growth share matrix classifies businesses on two dimensional scale.
   - (b) Socio-cultural environment consists of factors related to government and politics.
   - (c) First step in strategic management model is developing a strategic vision and mission.
   - (d) TQM involves discrete improvements in the organisational setup.
   - (e) Divestment strategy involves the sale or liquidation of a portion of business.
   - (f) The scope of supply chain management is wider than logistic management.
   - (g) Balance scorecard serves both financial and strategic purposes.
   - (h) BPR refers to the analysis and redesign of workflows within the organisation and with the external entities.
   - (i) The thrust of operational control is on individual tasks or transactions.

   (ii) Fill in the blanks in the following statements with the most appropriate word:
   - (a) To identify those competences which critically underpin the organization's competitive advantage are known as ________________.
   - (b) The process of creating, maintaining, and enhancing strong, value- laden relationships with customers and other stakeholder is ______________.
   - (c) Under Porters five forces new entrants are ________________ source of competition.
   - (d) A ________________ consists of those rival firms with similar competitive approaches and positions in the market.
   - (e) In Michael Porter's generic strategy ________________ emphasizes producing standardized products at a very low per unit-cost for consumers who are price sensitive.

2. Write short note on:
   - (a) Premise control
   - (b) Unfreezing for change
   - (c) Transformational leadership
   - (d) Strategic groups

(e) Conglomerate diversification

3. What is globalisation? Why do companies go global?
4. Discuss the role of research and development in strategic implementation.
5. Define a mission statement. Why the organizations should have mission? And what are the points which are useful while writing a mission for a company?
6. Discuss various issues in analysis of competition in an industry?
7. What is a corporate strategy? Explain the stages of corporate strategy formulation implementation process.
8. Define corporate Culture. How culture can promote better strategy execution?
9. Discuss six sigma. What are six sigma methodologies for new products or services?
10. What is Strategic Management? What benefits accrue by following a strategic approach to managing?
11. What do you understand by 'Strategy'? Explain the four generic strategies as discussed by Glueck and Jauch.
12. Describe the construction of BCG matrix and discuss its utility in strategic management.
13. ABC Group with net worth of more than Rs 5000 crores is engaged in manufacturing of juices, confectionaries and ready to eat foods. In May, 2005 it acquired loss-making soft drink major XYZ Ltd at a cost of Rs. 357 crores. The acquisition helped the group to enter aerated drinks segment having a growth rate of 10% per annum. It was financed through internal sources and bank loan of Rs 250 crores. Various brands of XYZ were popular with the customers, however still the company was in losses. At the time of acquisition, the accumulated losses of the company were Rs 80 crores. Immediately after the takeover the group restructured the operations of XYZ ltd leading to its turnaround. In the year 2004-05, prior to acquisition, XYZ Ltd had incurred a loss of about Rs. 12 crores. After being acquired the company was able to wipe out all accumulated losses in the initial four years. The company also declared a dividend of 15% for the year 2010-11. The share that was trading at Rs 9 below its par value of Rs 10 is now at Rs 54.

    While restructuring the operations of XYZ, production and marketing activities were bifurcated. For post production activities separate strategic units were created for managing Indian and international affairs. Indian operations were managed by separate offices located in New Delhi, Mumbai, Bangalore and Chennai. Before acquisition, an office was maintained in Singapore to control all international activities. In the restructuring, Singapore office was dispensed with and separate profit centres were created in major international markets.

    Each of these units was autonomous to make its own plans and take decisions. Overall performance of each unit was compared on monthly basis. The unit with the best improvement in the performance was named as the unit of the month and its head was given company paid one week holiday.

The ABC Group is also shifting XYZ's focus on retailing bulk soft drink through automatic dispensing units installed at movie halls, theatres, railway stations, bus stands and airports. In comparison to bottling, the new approach helped in reduction in distribution costs. Currently, the sale through bulk vending is only 5%. In a year's time the ratio is estimated to be 90:10. It is planned that the channel will be further expanded in five years and by that time the ratio is expected to be 60:40.

While restructuring, mapping of individuals was done with different jobs. In the process, some of the employees of the XYZ Ltd were found to be not fitting well in the new structure. They were shifted to other companies of the group with lucrative packages.

The company also worked on improvement in quality and reduction in costs. Any useful idea that helped in cost-cutting or improvement in the processes was also suitably rewarded. The company focussed on the reduction of inventory levels after acquisition with better linkages with the suppliers, distributors and customers. The efforts helped in the reduction of bottling costs by 10%.

Questions:

(a) What strategies were adopted by the ABC Group to turnaround the loss making XYZ Ltd.?

(b) What are the strengths of ABC Group?

(c) Is it is a wise decision of ABC Group to take such borrowings to finance the acquisition?

14. Television industry in India is huge with hundreds of channels broadcasting thousands of programmes at national and regional level. The small screen is a popular way of entertainment in Indian households. There are a number channels in different categories such as family, music, sports, news and movies. There is intense competition with each channel vying to get the viewership. Revenues are directly related to the TRPs generated by the programmes.

For the global music industry, Indian television broadcasting market brought huge opportunity. Gradually the number of players increased and the competition became cut-throat.

The struggle got very aggressive when two foreign owned music channels entered the Indian market. Two channels 'Fusion' and 'Melody' were launched almost simultaneously investing heavily in the infrastructure and other resources. The competition became unhealthy and the channel started copying each other. Often it led to personal war of words between the two heads of each channel.

Music channel Fusion was distributed in an arrangement with an Indian group as its bouquet. With the reach of the group fusion became more popular and attained number one position in the country. Melody was ranked number two in the market.

Melody's management decided that it needed to reposition the image of the channel and differentiate the service from the competitor. Consequently, Melody changed its image from a music channel to that of a youth channel. The aim of the repositioning was to develop the music industry from an "Indian kid's point of view."

Secondly, Melody reduced the number of Hindi film clips and allowed more programs in various regional languages such as Tamil, Bengali, etc. The channel also increased the amount of Western music delivered, two hours of prime time every day to international music.

There were other strategies that were adopted to cope up with competition by both Melody and Fusion. Melody aggressively engaged themselves in events marketing in the form of hosting spectacular road shows and dance parties. This helped them in getting acceptance and develop the local music sense within the company.

By implementing these strategic changes, Melody was able to come back and get a commendable position to face the contemporary competition in the Indian music industry. It became number 1 youth channel in India with viewership better than Fusion.

Questions:

(a) Discuss the Indian television Industry.

(b) What strategies are opted by Melody?

(c) Explain the position of Fusion?

(d) Why 'war of words' happen between the heads of two channels?

SUGGESSTED ANSWERS/HINTS

1. (i) (a) **Correct:** The BCG growth share matrix represent businesses on a two-dimensional scale. 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. On the basis of different positions of the businesses on the matrix they are classified as stars, cash cows, question marks and dogs.

(b) **Incorrect**: Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which have bearing on the business of organizations. The beliefs, values and norms and general fabric of society determine how individuals and organizations are interrelated with each other.

(c) **Correct:** Identifying an organisation's existing vision, mission, objectives are the starting point for any strategic management process. Determining vision and mission provides long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organisation with a sense of purposeful action.

(d) **Incorrect:** TQM aims at continual increase in customer satisfaction at continually lower real cost. It is a total system approach that works across functions and departments. It involves all employees, top to bottom, and extends backward and forward to include the supply chain. TQM stresses learning and adaptation to continual change as keys to organizational success.

(e) **Correct:** Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

(f) **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 involves delivering the right product at the right time to the right place and at the right price.

(g) **Incorrect**: Balance scorecard serves a combination of strategic and financial objectives. It measure company performance, requires setting both financial and strategic objectives and tracking their achievements. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers may like to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made.

(h) **Correct:** BPR stands for business process reengineering. It refers to the analysis and redesign of workflows both within and between the organisation and the external entities. Its objective is to improve performance in terms of time, cost, quality, and responsiveness to customers. It implies giving up old practices and adopting the improved ones. It is an effective tool of realising new strategies.

(i) **Correct:** The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

(ii) (a) Core competencies.

(b) Relationship marketing.

(c) Insignificant.

(d) Strategic group

(e) Cost leadership

2. (a) A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

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

(ii) Industry factors such as competitors, suppliers, substitutes.

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

(b) 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.

(c) Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

(d) Strategic groups are conceptually defined clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. Strong economic compulsions often constrain these firms from switching one competitive posture to another. Any industry contains only one strategic group when all firms essentially have identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the market place.

(e) Conglomerate diversification is a totally unrelated diversification. No linkages exist between the existing and new businesses / products. They are disjointed in processes, technology. Conglomerate diversification has no common thread with the firm's present position.

3. Refer to Chapter 1. The term globalization refers to increase in the interrelations and interdependencies of various countries. With the reduction in barriers the businesses are expanding in an unprecedented manner beyond geographical boundaries. Globalised era has led to improvement in the flow of goods, capital, services and labour. There are several reasons why companies go global. Major reasons for going global are as follows:

- There is rapid shrinking of time and distance across the globe on account of faster communication, speedier transportation, growing financial flows and rapid technological changes.
- Domestic markets may get saturated over a period of time.
- A successful new product does not remain limited to one geographical area or country. It gradually generates demand from other parts of the globe.
- Another reason for going overseas may also vary by industry. Petroleum and mining companies often go global to secure a reliable or cheaper source of raw-materials.
- Companies set up overseas plants to reduce high transportation costs.
- The motivation to go global in technology driven companies can be taking advantages of cheaper manpower.

4. Refer to Chapter 5. Research and development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation. R&D employees and managers perform tasks that include transferring complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications. Strategies such as product development, market penetration, and concentric diversification require

that new products be successfully developed and that old products be significantly improved.

R&D policies can enhance strategy implementation efforts to:

- Emphasize product or process improvements.
- Stress basic or applied research.
- Be leaders or followers in R&D.
- Develop robotics or manual-type processes.
- Spend a high, average, or low amount of money on R&D.
- Perform R&D within the firm or to contract R&D to outside firms.
- Use university researchers or private sector researchers.

5. Refer to Chapter 2. A company's Mission statement is typically focused on its present business scope – "who we are and what we do"; mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Why organization should have mission?

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

Following points are useful while writing mission of a company:

- One of the roles of a mission statement is to give the organization its own special identity, business emphasis and path for development – one that typically sets it apart from other similarly situated companies.
- A company's business is defined by what needs it trying to satisfy, by which customer groups it is targeting and by the technologies and competencies it uses and the activities it performs.

- Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- Good mission statements are highly personalized – unique to the organization for which they are developed.

6. Refer to chapter 3. Industry and competitive analysis can be done using a set of concepts and techniques to get a clear fix on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry's profit outlook. It provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for company funds. The analysis entails examining a company's business in the context of a much wider environment. Industry and competitive analysis aims at developing insight in several issues. Analysing these issues build understanding of a firm's surrounding environment and, collectively, form the basis for matching its strategy to changing industry conditions and competitive realities. The issues are given below:
   - Dominant economic features of the industry.
   - Nature and strength of competition.
   - Triggers of change.
   - Identifying the companies that are in the strongest/weakest positions.
   - Likely strategic moves of rivals.
   - Key factors for competitive success.
   - Prospects and financial attractiveness of industry.

7. Refer to chapter 4. We can describe corporate strategy as the objective-strategy design of the firm. To arrive at such an objective-strategy design is the basic burden of corporate strategy formulation.

   Crafting and executing a company's strategy is a five-stage managerial process as given below:

   (i) Developing a strategic vision of where the company needs to head and what its future product-customer-market-technology focus should be.

   (ii) Setting objectives and using them as yardsticks for measuring the company's performance and progress.

   (iii) Crafting a strategy to achieve the desired outcomes and move the company along the strategic course that management has charted.

   (iv) Implementing and executing the chosen strategy efficiently and effectively.

(v) Monitoring developments and initiating corrective adjustments in the company's long-term direction, objectives, strategy, or execution in light of the company's actual performance, changing conditions, new ideas, and new opportunities.

8. Refer to chapter 6. Every business organisation has a unique organizational culture. Each business has its own philosophy and principles, its own ways of approaching problems and making decisions, its own work climate. An organisation has its own embedded patterns of how to do things. Its own ingrained beliefs, behaviour and thought patterns, and practices define its corporate culture.

   Strong cultures promote good strategy execution when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strat*egy* execution. For example, a culture where frugality and thrift are values strongly shared by organizational members is very conducive to successful execution of a low cost leadership strategy. A culture where creativity, embracing change, and challenging the status quo are pervasive themes is very conducive to successful execution of a product innovation and technological leadership strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility is very conducive to successful execution of a strategy of delivering superior customer service.

9. Refer to chapter 7. Primarily Six Sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

   It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones.

   For implementing six sigma for new products, processes and services we use DMADV: DMADV is acronym for the steps followed in implementing six sigma. They are (i) define, (ii) measure, (iii) analyze, (iv) design and (v) verify.

10. Refer to chapter 2. In a highly competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. Strategic management starts with developing a company mission, objectives and goals, business portfolio, and functional plans. The overall objective of strategic management is two-fold:

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

The following are the benefits of strategic approach to managing:

- Strategic management helps organisations to be more proactive instead of reactive in shaping its future.
- Strategic management provides guidance and framework for all the major business decisions of an enterprise such as decisions on products, markets, investments and organisational structure.
- Strategic management is concerned with ensuring a good future for the firm. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- Strategic management serves as a corporate defense mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.

11. Refer to chapter 4. Businesses have to respond to a dynamic and often hostile environment for pursuit of their mission. Strategies provide an integral framework for management and negotiate their way through a complex and turbulent external environment. Strategy seeks to relate the goals of the organisation to the means of achieving them.

    - A company's strategy is the game plan management is using to stake out market position and conduct its operations. A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organisational objectives.
    - Strategy may be defined as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness.

    According to Glueck and Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

    - Stability strategies.
    - Expansion strategy.
    - Retrenchment strategy.
    - Combination strategies.

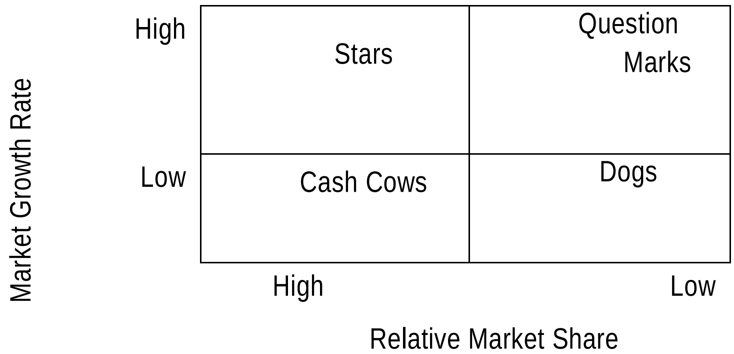
12. Refer to chapter 3. Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing a portfolio of different business units or major product lines. The BCG growth-share matrix named

after its developer facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.

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

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

Thus the BCG matrix depicts four quadrants as per following:



Different types of business represented by either products or SBUs can be classified for portfolio analysis through BCG matrix. They have been depicted by meaningful metaphors, namely Stars, Cash Cows, Question Marks and Dogs.

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

(a) Build with the aim for long-term growth and strong future.

(b) Hold or preserve the existing market share.

(c) Harvest or maximize short-term cash flows.

(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

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

13. 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 judgments.

In part (a) you need to think and write all the strategies followed by ABC group like restructuring, creating profit centres. In part (b) ABC group has used its all the functional strategies well so its main strength is its planning and implementation of functional strategies. In part (c) you need to highlight the risks associated with borrowings. Organisations need to take a cautious view. However, some risk is necessary for growth.

For answering the questions, students should draw inferences from theoretical concepts of strategic management and integrate them. You should not rely upon unsupported opinions and over generalizations and clearly demonstrate that your interpretations are reasonable, logical and objective. You may also take cues from what you have learnt from newspapers and other business magazines.

14. This case is again for practice. In part (a) discuss the nature of Indian television industry. You may highlight the position of state broadcaster (Doordarshan) in the initial years and explain the present position. In part (b) you should trace out all the strategies adopted by Melody like shift from music channel to youth channel, reduction in the number of Hindi film clips and allow other regional languages, etc. In part (c) highlight the advantages of associating with an bouquets of channels and how Fusion got initial benefits. In part (d) explain the pressures on CEOs / heads to succeed that often creates stress and lead to unhealthy clashes. Students must bring out that such situations should be avoided.

May 12

SECTION – B: STRATEGIC MANAGEMENT

QUESTIONS

Correct/Incorrect with reasoning

(1) State with reasons which of the following statements are correct/incorrect:

(a) Substitute products are latent source of competition.

(b) Stability is not an objective of an organization.

(c) Corporate-level managers can be viewed as the guardians of shareholders.

(d) Strategic management help organizations to be more reactive in shaping their future.

(e) Key success factors are constant for all industries.

(f) In BCG matrix, "Question Marks" represent low growth and high market share businesses or products.

(g) The balance scorecard approach requires more emphasis on financial objectives than on strategic objectives.

(h) Publicity is a personal form of promotion.

(i) A SBU is a group of unrelated businesses.

Fill in the blanks

(2) Fill in the blanks in the following statements with the most appropriate word:

(a) _________consist of external factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization.

(b) _______________are organizations performance targets – the results and outcomes it wants to achieve.

(c) In GE portfolio matrix, the vertical axis represents _________and horizontal axis represents ______________.

(d) Supply chain management is conceptually wider than ______________ management.

(e) The role of human resource manager is _____________ in building up core competence of the firm.

(f) TQM is a people-focused management system that aims at continual increase in _____________ satisfaction at continually lower real cost.

(g) Benchmarking is a process of continuous improvement in search for ____________advantage.

(h) ___________leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization.

(i) In Kurt Lewin change process ____________occurs when the new behaviour becomes a normal way of life.

(j) Divestment is usually a part of ____________ or restructuring plan.

Explain the concepts

3. Explain the meaning of the following concepts:
   (a) Environmental scanning
   (b) Corporate strategy
   (c) Strategic decision making
   (d) Mission statement
   (e) Market penetration
   (f) Portfolio analysis
   (g) Competitive strategy
   (h) Strategic business units
   (i) Competitive advantage
   (j) Globalization

Differences between the two concepts

4. Distinguish between the following:
   (a) Strategy formulation and strategy implementation.
   (b) Forward and backward integration.
   (c) Vision statement and mission statement
   (d) Transformational and transactional leadership
   (e) SWOT and TOWS Matrix

Short notes

5. Write short notes on the following:
   (a) Objectives of business
   (b) Importance of strategic management
   (c) Key success factors
   (d) Expansion through acquisitions and mergers
   (e) Evaluating the worth of a business

(f) Network structure

(g) Central thrust of BPR

Brief answers

6. Briefly answer the following questions:
   (a) What is strategic vision?
   (b) Define ‘five forces model.’
   (c) What do you understand by ethnic mix?
   (d) Explain the term star in the context of BCG matrix.
   (e) Grand strategy alternative during recession.
   (f) Logistics strategy.
   (g) How internet has helped business?

Chapter 1-Business Environment

7. What is Environment? Briefly explain macro environmental factors that affect an organization's strategy.
8. Do you think that competition is always bad for organisations? Explain Porter’s five forces model as to how businesses can deal with the competition.

Chapter 2-Business Policy and Strategic Management

9. What do you understand by strategic management? Discuss its framework.
10. What do you understand by ‘Strategy’? Explain the four generic strategies as discussed by Glueck and Jauch.

Chapter 3-Strategic Analysis

11. Describe in detail the SWOT analysis. What is its significance in organizations?
12. Describe the construction of BCG matrix and discuss its utility in strategic management.

Chapter 4-Strategic Planning

13. Under what conditions would you recommend the use of turnaround strategy in an organization? What could be a suitable work plan for this?
14. Discuss strategic alternatives with reference to Michael Porter’s strategies.

Chapter 5-Formulation of Functional Strategy

15. What do you understand by the term marketing mix? Discuss its various constituents.
16. What is supply chain management? Is it same as logistics management? Discuss.

Chapter 6-Strategic Implementation and Control

17. Explain briefly strategic control. Also elaborate the various types of strategic control.
18. Define corporate culture. Also elucidate the statement "Culture is a strength that can also be a weakness".

Chapter 7-Reaching Strategic Edge

19. What are the various guiding principles of total quality management?
20. Define Business Process Re-engineering. Briefly outline the steps therein.

SUGGESTED ANSWERS/HINTS

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

(b) Incorrect: One of the most important of objectives of business enterprises is stability. It is a cautious, conservative objective. In a sense, stability is a inexpensive and least risk objective in terms of managerial time and talent and other resources. A stable and steady enterprise minimises managerial tensions and demands less dynamism from managers. It is a strategy of least resistance to the hostile external environment.

(c) Correct: Corporate-level managers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders). Corporate-level managers, and particularly the CEO, can be viewed as the guardians of shareholder welfare. It is their responsibility to ensure that the corporate and business strategies that the company pursues are consistent with maximizing shareholder wealth. If they are not, then ultimately the CEO is likely to be called to account by the shareholders.

(d) Incorrect: 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.

(e) Incorrect: Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change.

Rarely an industry has more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance. Managers, therefore, have to resist the temptation to include factors that have only minor importance. To compile a list of every factor that matters even a little bit defeats the purpose of concentrating management attention on the factors truly critical to long-term competitive success.

(f) Incorrect: 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.

(g) Incorrect: The balanced scorecard approach for measuring company performance requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made. The surest path to sustained future profitability quarter after quarter and year after year is to relentlessly pursue strategic outcomes that strengthen a company's business position and, ideally, give it a growing competitive advantage over rivals.

(h) Incorrect: Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Organizations skillfully seek to promote themselves and their product without payment. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

(i) Incorrect: 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 multitude of businesses into a few distinct business units in a scientific way. The purpose is to provide effective strategic planning treatment to each one of its products/businesses.

(2) (a) Socio-cultural environment

(b) Objectives

(c) Market attractiveness and Business position.

(d) Logistics

(e) Significant

(f) Customer

(g) Competitive

(h) Transformational

(i) Refreezing

(j) Rehabilitation

3 (a) Environmental scanning also known as environmental monitoring is the process of gathering information regarding company's environment, analysing it and forecasting the impact of all predictable environmental changes. Successful marketing depends largely on how a company can synchronise its marketing programmes with its environmental changes.

(b) Corporate strategy is basically the growth design of the firm; it spells out the growth objective - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth. Thus, we can also describe corporate strategy as the objective-strategy design of the firm.

(c) Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions are routine, tactical or strategic in nature. Strategic decisions are different from other decisions. They have long term implications, steer organisation to its future path, have organisation wide implications and so on. These decisions are taken considering different internal and external factors. They are also taken with partial or no definite knowledge of different factors affecting the decision situation.

(d) A company's Mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

(e) 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. Prices are kept below competition to obtain a large share of market and to develop popularity. Penetration might require greater spending on advertising or personal selling.

(f) Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multi product and multi business firms.

(g) Competitive strategy provides the framework that guides competitive positioning decisions. It examines the way in which an organization can compare more effectively to strengthen its market position and build a sustainable competitive advantage.

(h) Strategic Business Units are units within the overall organization for which there is an external market for goods or services distinct from other strategic business units.

(i) Competitive advantage is the result of a strategy capable of helping a firm to maintain and sustain a favourable market position. This position is translated into higher profits compared to those obtained by competitors operating in the same industry.

(j) Globalization refers to the process of integration of the world into one huge market. Such unification calls for removal of all trade barriers among countries. Globalization is an opportunity for organizations to expand their markets and reach out to different customers.

4 (a) Distinction between strategy formulation and strategy implementation: Although inextricably linked, strategy implementation is fundamentally different from strategy formulation in the following ways:

(i) Strategy formulation is positioning forces before the action. Strategy implementation is managing forces during the action.

(ii) Strategy formulation focuses on effectiveness whereas strategy implementation focuses on efficiency.

(iii) Strategy formulation is primarily an intellectual process whereas implementation of strategy is primarily an operational process.

(iv) Strategy formulation requires good intuitive and analytical skills while strategy implementation requires special motivation and leadership skills.

(v) Strategy formulation requires coordination among a few individuals while strategy implementation requires organization wide coordination.

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

Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. While forward integration is moving forward in the value chain and entering business lines that use existing products.

(c) A ***Mission statement*** tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance. On the other hand, a ***Vision*** *statement* outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the differences between vision and mission:

- The vision describes a future identity while the Mission serves as an ongoing and time-independent guide.
- The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.
- A mission statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a vision statement is more specific in terms of both the future state and the time frame. Vision describes what will be achieved if the organization is successful.

(d) *Transformational leadership style* use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

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

Transactional leadership style may be appropriate in 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.

(e) TOWS Analysis is a variant of the classic business tool, SWOT Analysis. TOWS and SWOT are acronyms for different arrangements of the words Strengths, Weaknesses, Opportunities and Threats. By analyzing the external environment (threats and opportunities), and internal environment (weaknesses and strengths), we can use these techniques to think about the strategy of a company. Following are the some basic differences between TOWS and SWOT matrix:

- TOWS emphasises on external environment whereas SWOT emphasises on internal environment.
- TOWS matrix is about the combinations of SO, ST, WO, WT whereas SWOT matrix is about S, W, O, T.
- TOWS analysis is an action tool whereas SWOT analysis is a planning tool.
- TOWS is particularly useful in evaluating the potential impact of sudden events or developments while SWOT is usually employed in evaluating a company's business plan.

5 (a) Enterprises pursue multiple objectives rather than a single objective. In general, we may identify a set of business objectives pursued by a large cross-section of enterprises. These relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on. Enterprises seek to balance these objectives in some appropriate manner. We may now elaborate some of the more important objectives of business

- Survival
- Stability
- Growth
- Efficiency
- Profitability

(b) The major benefits of strategic management are:

- Strategic management helps organisations to be more proactive instead of reactive in shaping its future.
- Strategic management provides framework for all the major business decisions of an enterprise.
- Strategic management is concerned with ensuring a good future for the firm.
- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls.

¨ 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.

(c) An industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.

(d) Acquisition of or merger with an existing concern is an instant means of achieving the expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on.

(e) Evaluating the worth of a business is central to strategy implementation because integrative, intensive, and diversification strategies are often implemented by acquiring other firms. Other strategies, such as retrenchment may result in the sale of a division of an organization or of the firm itself.

All the various methods for determining a business's worth can be grouped into three main approaches:

The first approach, in evaluating the worth of a business is determining its net worth or stockholders' equity.

The second approach, to measuring the value of a firm grows out of the belief that the worth of any business should be based largely on the future benefits its owners may derive through net profits.

The third approach, letting the market determine a business's worth, involves three methods.

(f) Network structure is a newer and somewhat more radical organizational design. The network structure could be termed as 'non-structure' as it virtually eliminates in-house business functions and outsources many of them. A corporation organized in this manner is a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so.

(g) BPR is continuous improvement process. Although BPR is a multi-dimensional approach in improving the business performance it's thrust area may be identified as "the reduction of the total cycle time of a business process." BPR aims at reducing the cycle time of process by eliminating the unwanted and redundant steps and by simplifying the systems and procedures and also by eliminating the transit and waiting times as far as possible. Even after redesigning of a process, BPR maintains a continuous effort for more and more improvement.

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

(b) 'Five Force Model' is a tool for strategic action and involves the analysis of customers, suppliers, potential entrants and substitute products, all of whom have the potential to impact the market depending on the industry. It is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and important. These five forces are:

- Threat of new entrants.
- Bargaining power of customers.
- Bargaining power of suppliers.
- Rivalry among current players.
- Threat from substitutes.

(c) Ethnic mix reflects the changes in the ethnic make-up of a population and has implications both for a company's potential customers and for the workforce. Issues that should be addressed include:

- What do changes in the ethnic mix of the population imply for product and service design and delivery?
- Will new products and services be demanded or can existing ones be modified?
- Managers prepared to manage a more culturally diverse workforce?
- How can the company position itself to take advantage of increased workforce heterogeneity?

(d) **Star in BCG Matrix:** BCG growth-share matrix is a simple 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. The matrix is based on combinations of relative market share of the products or SBUs and their market growth rate.

Stars, a position in the matrix, are characterised by high market share and high growth rate. They are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. Business organisations that enjoy star positions have best opportunities for expansion and growth.

(e) Stability strategy is advisable option for the organisations facing recession. During recession businesses face reduced demand for their products even at low prices. Funds become scarce, expenditure on expansion is stopped, profits decline and businesses try to minimise the costs. They work hard to maintain the existing market share, so that company survives the recessionary period.

(f) Management of logistics is a process which integrates the flow of materials into, through and out of an organization to achieve a level of service that the right materials are available at the right place at the right time, of right quality and at the right cost. For a business organization effective logistics strategy will involve raising and finding solutions to the questions relating to raw material, manufacturing locations, products, transportation and deployment of inventory. Improvement in logistics can result in saving in cost of doing business.

When a company creates a logistics strategy it is defining the service levels at which its logistics systems are highly effective. A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers to address different categorical requirements.

(g) The Internet is an integrated network of high-speed computers and servers, digital switches and routers, telecommunications equipment and lines and individual computers of users. The Internet has provided a very fast means of communication to business with no geographic limitations. Internet also makes it feasible for companies to find, negotiate and deal across the world with suppliers on one hand and customers on the other. The evolving Internet technology is altering industry value chains, spawning substantial opportunities for increasing efficiency and reducing costs, and affecting strengths and weaknesses of business organisations.

7. Environment is sum of several external and internal forces that affect the functioning of business. Businesses function as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. 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. Important elements of macro environment are:

- Demographic environment: The term demographics denote characteristics of population in an area, district, country or in world. It includes factors such as race, age, income, educational attainment, asset ownership, home ownership, employment status and location. Marketers and other social scientists often group populations into categories based on demographic variables. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, education, growth rate affect the business with different magnitude.
- Economic environment: The economic environment refers to the nature and direction of the economy in which a company competes or may compete. The economic environment includes general economic situation in the region and the nation, conditions in resource markets which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.
- Political-Legal Environment: This is partly general to all similar enterprises and partly specific to an individual enterprise. There are three important elements in political-legal environment are Government, legal and political.
- Socio-Cultural environment: Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated. The core beliefs of a particular society tend to be persistent. It is difficult for businesses to change these core values, which becomes a determinant of its functioning.
- Technological environment: The most important factor, which is controlling and changing people’s life, is technology. Technology has changed the ways of how business operates now. This is leading to many new business opportunities as well as making obsolete many existing systems. Technology can act as both opportunity and threat to a business.
- Global environment: Today's competitive landscape requires that companies must analyse global environment as it is also rapidly changing. The new concept of global village has changed how individuals and organizations relate to each other. Further, new migratory habits of the workforce as well as increased offshore operation are changing the dynamics of business operation.

8. Although competition makes organizations work harder, intense competition is neither a coincidence nor bad luck. All organizations have competition. The benefit of competition is also enjoyed by the markets in which organisations operate. The customers are able to get products at lower costs and better quality. They get better value of their money because of competition.

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 to digest it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

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

9. The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

The basic framework of strategic process can be described in a sequence of five stages as follows:

Stage one - Where are we now? (Beginning): This is the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context.

Stage two - Where we want to be? (Ends): This is a process of goal setting for the organization after it has finalised its vision and mission.

Stage three - How might we get there? (Means): Here the organization deals with the various strategic alternatives it has.

Stage four - Which way is best? (Evaluation): Out of all the alternatives generated in the earlier stage the organization selects the best suitable alternative in line with its SWOT analysis.

Stage five - How can we ensure arrival? (Control): This is a implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages again.

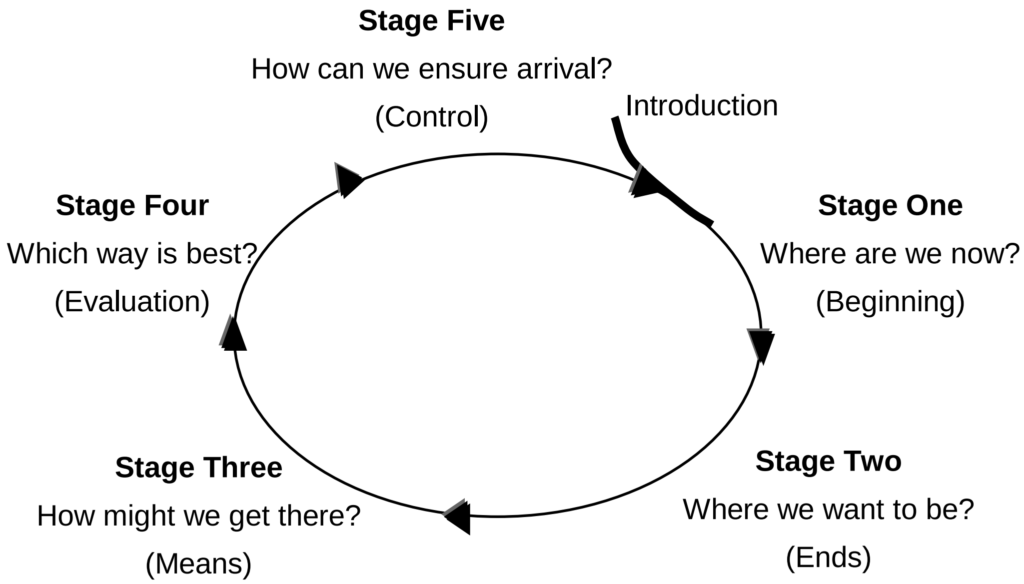


Figure - Framework of strategic management

10. Strategies provide an integral framework for management and negotiate their way through a complex and turbulent external environment. Strategy seeks to relate the goals of the organisation to the means of achieving them.

    Strategy may be defined as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness.

    The Generic Strategies

    According to Glueck and Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

    (i) **Stability strategies:** One of the important goals of a business enterprise is stability to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

(ii) **Expansion Strategy:** Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. Expansion includes diversifying, acquiring and merging businesses.

(iii) **Retrenchment Strategy:** A business organisation can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

(iv) **Combination Strategies:** Stability, expansion or retrenchment strategies are not mutually exclusive. It is possible to adopt a mix to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

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

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

The significance of SWOT analysis lies in the following points:

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

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

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

   · The vertical axis represents market growth rate and provides a measure of market attractiveness.

   · The horizontal axis represents relative market share and serves as a measure of company strength in the market.

   Thus the BCG matrix depicts four quadrants as per following:

Market Growth Rate			
	High	Stars	Question Marks
	Low	Cash Cows	Dogs
		High	*Low*

Relative Market Share

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

(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.

(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.

(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 can become stars if properly managed, however, if left unattended they are capable of becoming cash traps.

(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.

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

(a) Build with the aim for long-term growth and strong future.

(b) Hold or preserve the existing market share.

(c) Harvest or maximize short-term cash flows.

(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

13. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations require turnaround strategy. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Once turnaround is successful the organization may turn to focus on growth.

Conditions for turnaround strategies

When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

Action plan for turnaround strategy

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

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

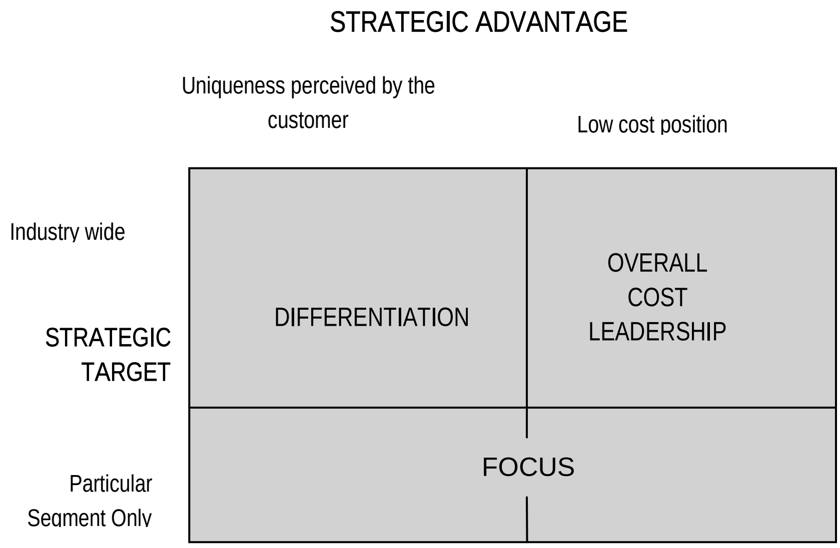


Figure: Michael Porter's Generic Strategy

Cost Leadership Strategies

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. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, capacity utilization and linkages with suppliers and distributors and so on.

Differentiation Strategies

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 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. Special features that differentiate one's product can include superior service, spare parts availability, design, product performance, useful life, or ease of use and so on.

Focus Strategies

A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence follow a differentiated strategy.

15. Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. These variables are often referred to as the "4 Ps." The 4 Ps stand for product, price, place and promotion.

- Product stands for the "goods-and-service" combination the company offers to the target market. Strategies are needed for managing existing product over time adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features.
- Price stands for the amount of money customers have to pay to obtain the product. Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale.
- Place stands for company activities that make the product available to target consumers. One of the most basic marketing decision is choosing the most appropriate marketing channel. Strategies should be taken for the management of channel(s) by which ownership of product is transferred from producers to customers and in many cases, the system(s) by which goods are moved.
- Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition, promotional strategies must be adjusted as a product move from earlier stages from a later stage of its life.

16. The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners – suppliers, intermediaries, other service providers and customers.

Supply chain management is defined as the process of planning, implementing, and controlling the supply chain operations. It is a cross-functional approach to managing the movement of raw materials into an organization and the movement of finished goods out of the organization toward the end-consumer who are to be satisfied as efficiently as possible.

Is logistic management same as supply chain management?

Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Although these activities also form part of Supply chain management, the latter has different components. Supply chain management includes more aspects apart from the logistics function. It involves working cohesively with the channel partners to streamline the flow of materials. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

17. *"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." – Schendel and Hofer*

Strategies once formulated are not immediately implemented. There is time gap between the stages of strategy formulation and their implementation. Strategies are often affected on account of changes in internal and external environments of organisations. There is need for warning systems to track a strategy as it is being implemented. Strategic control is the process of evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments.

Type of Strategic Control

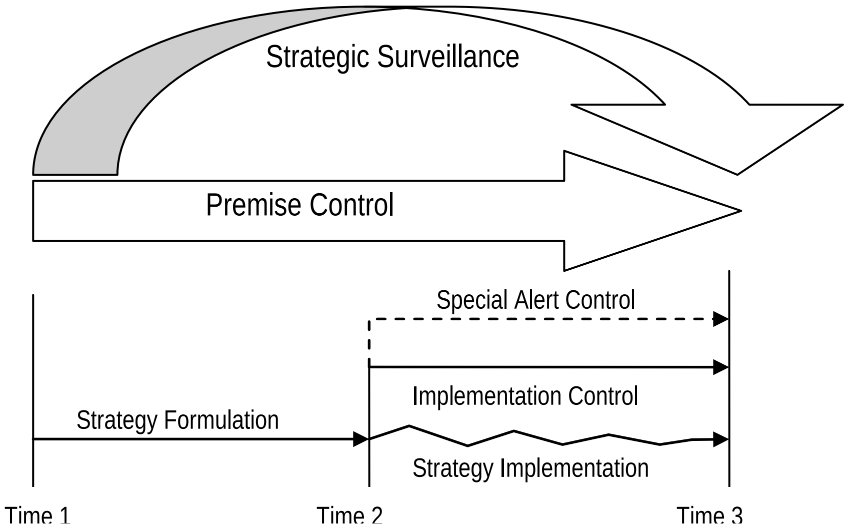
There are four types of strategic control as follows:

- Premise control: A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
- Strategic surveillance: Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Strategic surveillance may be loose form of strategic control, but is capable of uncovering information relevant to the strategy.
- Special alert control: At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy. Organizations to cope up with these eventualities, form crisis management teams to handle the situation.
- 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 associated with incremental steps and actions.

  Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basis forms of implementation control are:

(i) Monitoring strategic thrusts

(ii) Milestone Reviews



Source: From book "Strategic management-formulation, Implementation and control" by John A Pearce II, Richard B Robinson, Jr. and Amita Mital.

These four strategic controls steer the organisation and its different sub-systems to the right track. They help the organisation to negotiate through the turbulent and complex environment.

18. 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 behavioural norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty and sense of identity.

19. Implementing TQM requires organization wide support. There are several principles that guide success of TQM. Various principles that guide the total quality management philosophy are as follows:

    - A sustained management commitment to quality
    - Focusing on the customer
    - Preventing rather than detecting defects
    - Universal quality responsibility
    - Quality measurement
    - Continuous improvement and learning
    - Root cause corrective action
    - Employee involvement and empowerment
    - The synergy of teams
    - Thinking statistically
    - Inventory reduction
    - Value improvement
    - Supplier teaming
    - Training

20. Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers.

    BPR involves the following steps:

    1. **Determining objectives and framework:** Objectives are the desired end results of the redesign process which the management and organization attempts to achieve. This will provide the required focus, direction, and motivation for the redesign

process. It helps in building a comprehensive foundation for the reengineering process.

2. Identify customers and determine their needs*:* The designers have to understand customers – their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.
3. Study the existing process: The existing processes will provide an important base for the redesigners. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.
4. Formulate a redesign process plan: The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering efforts. Customer focused redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.
5. Implement the redesign: It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalise the new process.

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Nov 12

SECTION – B: STRATEGIC MANAGEMENT

QUESTIONS

Correct/Incorrect with reasoning

1. State with reasons which of the following statements are correct/incorrect:
   - (a) Environment is static in nature.
   - (b) Strategies provide an integrated framework for the top management.
   - (c) Socio-cultural environment consists of factors related to government and politics.
   - (d) Strategic management is not needed in not-for-profit organisations.
   - (e) For a small entrepreneur vision and mission are irrelevant.
   - (f) A strategic group is a cluster of firms with dissimilar competitive approaches.
   - (g) Strategic planning is an attempt to improve operational efficiency.
   - (h) Augmented marketing is provision of additional customer services and benefits.
   - (i) Changes in strategy may lead to changes in organizational structure.
   - (j) Reengineering mean partial modification or marginal improvement in the existing work processes.

Explain the concepts

2. Explain the meaning of the following concepts:
   - (a) Kieretsus
   - (b) Environmental Scanning
   - (c) Market Development
   - (d) Benchmarking

Differences between the two concepts

3. Distinguish between the following:
   - (a) Top-down and bottom-up strategic planning.
   - (b) Concentric diversification and conglomerate diversification.
   - (c) Micro environment and Macro environment.
   - (d) ‘Shared vision and ‘vision shared’.

Short notes

4. Write short notes on the following:
   - (a) Product life cycle

(b) Premise control

(c) Dealing with strategic uncertainty

(d) Concept of strategic Intent

Brief answers

5. Briefly answer the following questions:

   (a) What is an opportunity?

   (b) Does HRM function play a role in organizational strategy?

   (c) What do you mean by core competencies?

   (d) Explain the term dogs in the context of BCG matrix.

   (e) Define strategic business unit (SBU).

Chapter 1-Business Environment

6. Discuss the Porter's model for systematically diagnosing the significant competitive pressures in a market.
7. Explain how technological factors present an opportunity as well as threat to a particular business organization.

Chapter 2-Business Policy and Strategic Management

8. What is Strategic Management? What benefits accrue by following a strategic approach to managing?
9. Explain in detail the term corporate strategy with its characteristics.

Chapter 3-Strategic Analysis

10. Explain how TOWS matrix can generate strategic options within external and internal environment.
11. Explain the model which has been inspired from traffic control lights.

Chapter 4-Strategic Planning

12. What are the various bases on which an existing firm can diversify strategically?
13. How a company can deal with strategic uncertainty.

Chapter 5-Formulation of Functional Strategy

14. What is meant by Functional strategies? In term of level where will you put them? Are functional strategies really important for business?
15. What is logistics strategy? What are the areas to examine while developing a logistics strategy?

Chapter 6-Strategic Implementation and Control

16. How the management of internal linkages in the value chain analysis creates competitive advantage?
17. An important part of strategic management process is implementation of strategy. Discuss the relationship of soundness of strategy formulation with the quality of implementation.

Chapter 7-Reaching Strategic Edge

18. Explain the strategy-shaping characteristics of the E-commerce environment.
19. Define each of the following and analyze its role in strategic implementation:
    (1) B.P.R.
    (2) Six sigma
    (3) Benchmarking

SUGGESTED ANSWERS / HINTS

1 (a) **Incorrect:** The environment of business consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. Different factors such as economic conditions, technology, laws, taste & preference keeps on changing. All in all, environment is a complex that is highly dynamic.

(b) **Correct:** Strategies provide a framework for management to negotiate its way through a complex and turbulent external environment. They provide a systematic basis for the enterprise to stand its ground in the face of challenge and change as also to quickly adjust to them.

(c) **Incorrect**: Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which have bearing on the business of the organization. The beliefs, values and norms and general fabric of society determine how individuals and organizations should be interrelated.

(d) **Incorrect** – Strategic management applies equally to profit as well as not-for-profit organizations. Though not-for-profit organizations are not working for the profit, they have to have purpose, vision and mission. They also work within the environmental forces and need to manage strategically to stay afloat to accomplish their objectives. For the purpose of continuity and meeting their goals, they also need to have and manage funds and other resources just like any other for-profit-organization.

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

(f) Incorrect: Strategic groups are clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. Strong economic compulsions often constrain these firms from switching one competitive posture to another. Any industry contains only one strategic group when all firms essentially have identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach.

(g) Incorrect: Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. They relate to the top level in the organisation and relate the organisation with its environment. Operational efficiency is not a direct outcome of strategic planning.

(h) Correct: Augmented marketing refers to deliberate and accelerated efforts to get better marketing returns through additional means. It includes provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

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

(j) Incorrect: Reengineering does not mean any partial modification or marginal improvement in the existing work processes. Reengineering is a revolutionary approach towards radical and total redesigning of the business processes.

2 (a) *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.

(b) Environmental scanning is the process of gathering information regarding company's environment, analysing it and forecasting the impact of all predictable environmental changes. Successful marketing depends largely on how a company can synchronise its marketing programmes with its environmental changes.

(c) 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 current company products. This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

(d) Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. The concept developed out of need to have information or standards 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.

3 (a) Top-Down and Bottom-Up Strategic Planning

Strategic planning determines where an organization is going over the next year or more and the ways for going there. The process is organization-wide, or focused on a major function such as a division. There are two approaches for strategic planning - top down or bottom up.

Top down strategic planning describes a centralized approach to strategy formulation in which the corporate centre or head office determines mission, strategic intent, objectives and strategies for the organization as a whole and for all parts. Unit managers are seen as implementers of pre-specified corporate strategies.

Bottom up strategic planning is the characteristic of autonomous or semi-autonomous divisions or subsidiary companies in which the corporate centre does not conceptualize its strategic role as being directly responsible for determining the mission, objectives, or strategies of its operational activities. It may prefer to act as a catalyst and facilitator, keeping things reasonably simple and confining itself to perspective and broader strategic intent.

(b) Concentric diversification occurs when a firm adds related products or markets. On the other hand conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business.

In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/product is disjointed from the existing businesses/products.

The most common reasons for pursuing a concentric diversification are that opportunities in a firm's existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

(c) The business environment consists of both the macro environment and the micro environment. Following are the differences between the two:

- The micro environment refers to the forces that are very close to the company and affect its ability to do routine functions. Macro environment refers to all forces that are part of the larger periphery and distantly affect organization and micro environment.
- Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors. Whereas macro environment includes demography, economy, natural forces, technology, politics, legal and socio-cultural.
- The elements of micro environment are specific to the said business and affects it's working on short term basis. The elements of macro environment are general environment and affect the working of all the firms in an industry.

(d) Individuals in organisations relate themselves with the vision of their organisations in different manner. When the individuals are able to bring organisational vision close to their hearts and minds they have "shared vision". Shared vision is a force that creates a sense of commonality that permeates the organization and gives coherence to diverse activities. However, 'vision shared' shows imposition of vision from the top management. It may demand compliance rather than commitment. For success of organisations having shared vision is better than vision shared.

4. (a) Product life cycle (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 (slow down in growth rate) and decline (sharp downward drift).

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 phase 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 phase of PLC is maturity stage. In this stage, the competition gets tough and market gets stablised. Profit come down because of stiff competition. At this stage organisations may work for maintaining stability. In the declining stage of PLC, 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.

(b) **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

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

(ii) Industry factors such as competitors, suppliers, substitutes.

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

(c) *Dealing with strategic uncertainty:* Strategic uncertainty, uncertainty that has strategic implications, is a key construct in strategy formulation. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

Sometimes the strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Information gathering and additional analysis will not be able to reduce the uncertainty. In that case, scenario analysis can be employed. Scenario analysis basically accepts the uncertainty as given and uses it to drive a description of two or more future scenarios. Strategies are then developed for each. One outcome could be a decision to create organizational and strategic flexibility so that as the business context changes the strategy will adapt.

(d) *Concept of Strategic Intent:* A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective. A company's objectives sometimes play an other role – that of signaling unmistakable strategic intent to make quantum gains in competing against key rivals and establish itself as a clear-cut winner in the marketplace, often against long odds. A company's strategic intent can entail becoming the dominant company in the industry, unseating the existing industry leader, delivering the best customer service of any company in the industry (or the world), or turning a new technology into products capable of changing the way people work and live. Ambitious companies almost invariably begin with strategic intents that are out of proportion to their immediate capabilities and market positions. They set aggressive objectives and pursue them relentlessly, sometimes even obsessively.

5 (a) An opportunity is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides.

(b) 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.

(c) 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.

(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.

(e) A strategic business unit (SBU) is an operating division of firm which serves a distinct product-market segment or a well-defined set of customers or a geographic area. The SBU is given the authority to make its own strategic decisions within corporate guidelines as long as it meets corporate objectives.

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

1. Threat of new entrants: New entrants are a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressures. The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

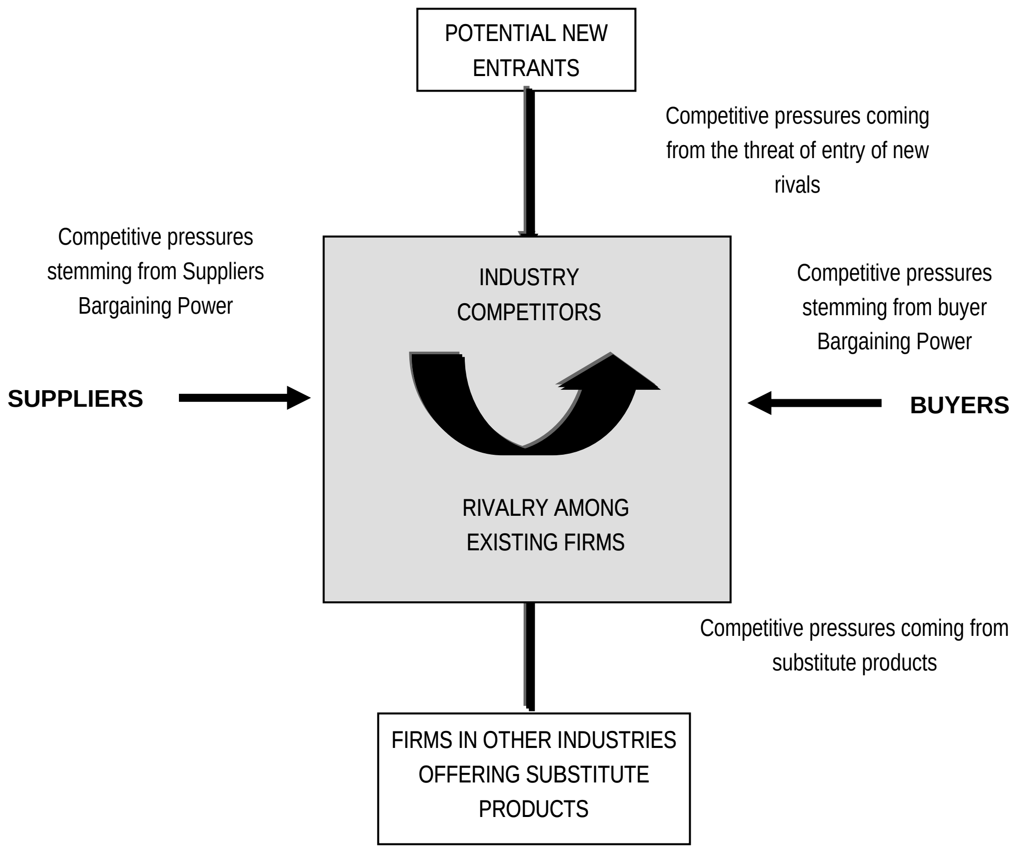
2. Bargaining power of customers: This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.

3. Bargaining power of suppliers: Quite often suppliers, too, exercise considerable bargaining power. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance

to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

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

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



7. Technology is the most dynamic of all the environmental factors. An individual enterprise is concerned with the dynamics of its product and process technology, research and development activities in the industry and elsewhere, innovations in products and processes, technological obsolescence and so on. Changes in technology vitally affect the enterprise's costs, profitability, plant location decisions, product lines, growth and development.

   The technology and business are highly interrelated and interdependent also. Technology is patronized by business. Technology also drives business and makes a total change on how it is carried out.

   Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage. For example, an innovative and modern production system can act as weakness if the business is not able to change their production system. New entrants or existing competitors can always use availability of technological improvements in products or production methods that can be a threat to a business.

   Technological opportunities and threats are not limited to the product or production. Technology permeates whole gambit of business. It can transform how a business acts and functions.

8. In a highly competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilise all facets of the organisation), and functional plans (plans to carry out daily operations from the different functional disciplines).

   The overall objective of strategic management is two fold:

   (1) To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.

   (2) To guide the company successfully through all changes in the environment.

   The following are the benefits of strategic approach to managing:

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

- Strategic management provides 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 do.
- Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It help organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

9. 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.

10. Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats. While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand. Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. Thus TOWS matrix has a wider scope when compared to SWOT analysis. TOWS analysis is an action tool whereas SWOT analysis is a planning tool. The matrix is outlined below:

Internal elements / *External Elements*	*Organizational Strengths*	*Organizational Weaknesses*
	Strategic Options	
Environmental opportunities (and risks)	*SO : Maxi – Maxi*	*WO : Mini – Maxi*
Environmental threats	*ST : Maxi – Mini*	*WT : Mini – Mini*

Figure: The TOWS Matrix (Source: Weihrich, H)

The TOWS Matrix is a relatively simple tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

SO(Maxi-Maxi): SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to take the competitive advantage.

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

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

WT(Mini-Mini): WT is a position that any firm will try to avoid. An organization facing external threats and internal weaknesses may have to struggle for its survival. WT strategy is a strategy which is pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

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

11. The model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey & Company) known as "Stop-Light" Strategy Model. This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model. The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop. This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness. The vertical axis indicates market attractiveness and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

- Size of the market.
- Market growth rate.
- Industry profitability.
- Competitive intensity.
- Availability of Technology.
- Pricing trends.
- Overall risk of returns in the industry.
- Opportunity for differentiation of products and services.
- Demand variability.
- Segmentation.
- Distribution structure (e.g. retail, direct, wholesale) etc.

Business strength is measured by considering the typical drivers like:

- Market share.
- Market share growth rate.
- Profit margin.
- Distribution efficiency.
- Brand image.
- Ability to compete on price and quality.
- Customer loyalty.

- Production capacity.
- Technological capability.
- Relative cost position.
- Management caliber, etc.

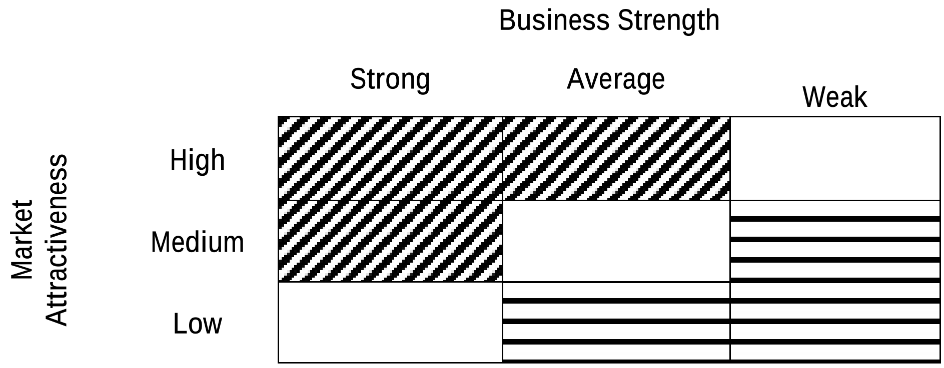
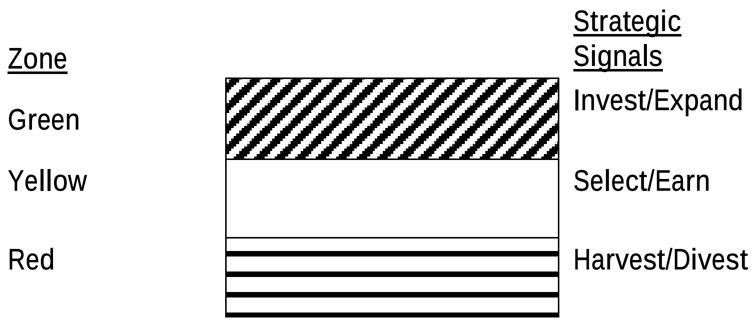


Figure : The GE Portfolio Matrix



If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices. If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

12. Diversification Strategy: Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

    (i) Vertically integrated diversification

    (ii) Horizontally integrated diversification

(iii) Concentric diversification

(iv) Conglomerate diversification

In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. Sequence It moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain.

Horizontal Integrated Diversification: Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.

Concentric Diversification: Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations. However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.

Conglomerate Diversification: In conglomerate diversification, no such linkages exist; the new businesses/ products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position.

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

    Sometimes the strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Information gathering and additional analysis will not be able to reduce the uncertainty. In that case, scenario analysis can be employed. Scenario analysis basically accepts the uncertainty as given and uses it to drive a description of two or more future scenarios. Strategies are then developed for each. One outcome could be a decision to create organizational and strategic flexibility so that as the business context changes the strategy will adapt.

14. Once higher level corporate and business strategies are developed, management need to formulate and implement strategies for each functional area. For effective implementation, strategists have to provide direction to functional managers regarding

the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. Strategy of one functional area can not be looked at in isolation, because it is the extent to which all the functional tasks are interwoven that determines the effectiveness of the major strategy.

Functional area strategy such as marketing, financial, production and Human Resource are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then for each of these sub functional areas, contents of functional strategies, important factors, and their importance in the process of strategy implementation is identified.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the higher level strategies and guidelines therein that are set at higher levels of an organisation. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

Major strategies need to be translated to lower levels to give holistic strategic direction to an organisation. Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. The reasons why functional strategies are really important and needed for business can be enumerated as follows:

The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.

- Functional strategies facilitate flow of strategic decisions to the different parts of an organisation.
- They act as basis for controlling activities in the different functional areas of business.
- The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.
- Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

15. Management of logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and

availability of materials in a proper manner. When a company creates a logistics strategy it is defining the service levels at which its logistics is smooth and is cost effective.

A company may develop a number of logistic strategies for specific product lines, specific countries or specific customers because of constant changes in supply chains. There are different areas that should be examined for each company that should be considered and should include:

- Transportation: Does the current transportation strategies help service levels required by the organisation?
- Outsourcing: Areas of outsourcing of logistics function are to be identified. The effect of partnership with external service providers on the desired service level of organisation is also to be examined.
- Competitors: Review the procedures adopted by competitors. It is also to be judged whether adopting the procedures followed by the competitors will be overall beneficial to the organisation. This will also help in identifying the areas that may be avoided.
- Availability of information: The information regarding logistics should be timely and accurate. If the data is inaccurate then the decisions that are made will be incorrect. With the newer technologies it is possible to maintain information on movement of fleets and materials on real time basis.
- Strategic uniformity: The objectives of the logistics should be in line with overall objectives and strategies of the organisation. They should aid in the accomplishment of major strategies of the business organisation.

16. Management of organization's value chain or linkages provide 'leverage' and levels of performance which are difficult to match. The ability to co-ordinate the activities of specialist teams or departments may create competitive advantage through improving value for money in the product or service. Specialization of roles and responsibilities is common in most organizations and is one way in which high levels of competence in separate activities is achieved. However, it often results in a set of activities which are incompatible – different departments pulling in different directions - adding overall cost and/or diminishing value in the product or service.

    This management of internal linkages in the value chain could create competitive advantage in a number of ways:

    - There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, it will probably add to the overall cost of operations. An assessment needs to be made of whether the value added to the customer by this faster response through holding stocks is greater than the added cost.
    - It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and

operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So high levels of competence in separate activities are not enough if, as here, the competences are incompatible: that is, they are not related to the same view of what value for money means to the customer.

- The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provide the basis on which the company outperforms competition. Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience.
- Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively.

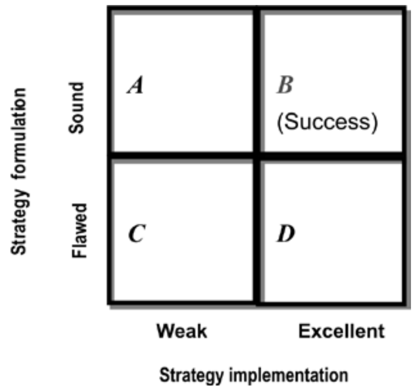
In addition to the management of internal linkage, competitive advantage may also be gained by the ability to complement/co-ordinate the organization's own activities with those of suppliers, channels or customers. Again, this could occur in a number of different ways:

- Vertical integration attempts to improve performance through ownership of more parts of the value system, making more linkages internal to the organization. However, the practical difficulties and costs of co-ordinating a wider range of internal activities can outweigh the theoretical benefits.
- Within manufacturing industry the competence in closely specifying requirements and controlling the performance of suppliers (sometimes linked to quality checking and/or penalties for poor performance) can be critical to both quality enhancement and cost reduction.
- A more recent philosophy has been total quality management, which seeks to improve performance through closer working relationships between the specialists within the value system. For example, many manufacturers will now involve their suppliers and distributors at the design stage of a product or project.
- The merchandising activities which manufacturers undertake with their distributors are now much improved and are an important.

17. 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 was made with some thought being given to feasibility and acceptability.

It is crucial to realize the difference between strategy formulation and strategy implementation because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. There is no such thing as successful strategic design. This sounds obvious, but in practice the distinction is not always made. The matrix in the figure below represents various combinations of strategy formulation and implementation:



18. Refer to chapter 7. We need to understand how growing use of the Internet by businesses and consumers reshapes the economic landscape and alters traditional industry boundaries. The following characteristics of the strategy-shaping E-Commerce environment are:

- The Internet makes it feasible for companies everywhere to compete in global markets.
- Competition in an industry is greatly intensified by the new e-commerce strategic initiatives of existing rivals and by the entry of new, enterprising e-commerce rivals.
- Entry barriers into the e-commerce world are relatively low.
- Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors.
- The Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and, further, to collaborate closely with them to achieve efficiency gains and cost savings.
- Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions.
- The internet results in much faster diffusion of new technology and new idea across the world.
- The e-commerce environment demands that companies move swiftly.

- E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains.
- The Internet can be an economical means of delivering customer service.
- The capital for funding potentially profitable e-commerce businesses is readily available.
- The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how.

19. (1) BPR: BPR stands for business process reengineering. It refers to the analysis and redesign of workflows both within and between the organisation and the external entities. Its objective is to improve performance in terms of time, cost, quality, and responsiveness to customers. It implies giving up old practices and adopting the improved ones. It is an effective tool of realising new strategies.

Improving business processes is paramount for businesses to stay competitive in today's marketplace. New technologies are rapidly bringing new capabilities to businesses, thereby raising the strategical options and the need to improve business processes dramatically. Even the competition has become harder. In today's market place, major changes are required to just stay even.

(2) Six sigma: 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.

(3) Benchmarking: It is a process of finding the best practices within and outside the industry to which an organisation belongs. Knowledge of the best helps in standards setting and finding ways to match or even surpass the best performances.

Benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking process to achieve improvement in diverse range of management function like maintenance operations, assessment of total manufacturing costs, product development, product distribution, customer services, plant utilisation levels and human resource management.

Nov 13

SECTION – B: STRATEGIC MANAGEMENT

QUESTIONS

Correct/Incorrect with reasoning

1. State with reasons which of the following statements are correct/incorrect:
   (a) Enterprises pursue multiple objectives rather than a single objective.
   (b) The role of corporate-level managers is to oversee the development of strategies for the whole organization.
   (c) Key Success Factors (KSFs) are static in industries.
   (d) Differentiation guarantees competitive advantage.
   (e) Strategic planning gives direction to the organization.
   (f) The management of funds can play a pivotal role in strategy implementation.
   (g) Liquidation strategy may be a pleasant strategic alternative.
   (h) SBU concepts facilitate multi business operations.
   (i) BPR is an approach to maintain the existing growth of an organization.
   (j) TQM is a people focused management system.

Explain the concepts

2. Explain the meaning of the following concepts:
   (a) Global environment
   (b) Strategic analysis
   (c) Market penetration
   (d) Cost leadership

Differences between the two concepts

3. Distinguish between the following:
   (a) Forward integration and backward integration
   (b) Vision and mission
   (c) Inbound logistics and outbound logistics
   (d) DMAIC and DMADV

Short notes

4. Write short notes on the following:
   (a) Strategic surveillance

(b) Competitive environment

(c) Strategic decision making

(d) Retrenchment strategy

Brief answers

5. Briefly answer the following questions:
   (a) Under what conditions a turnaround strategy can be used in an organization?
   (b) What are strategic groups?
   (c) Components of a value chain
   (d) Elements considered for situational analysis

Chapter 1-Business Environment

6. Briefly explain macro environmental factors that affect an organization's strategy.
7. Explain the strategic responses that can be opt in a particular situation by an organization during the environmental changes.

Chapter 2-Business Policy and Strategic Management

8. Explain in brief the level of strategic management in an organization.
9. What are the major dimensions of strategic decision making?

Chapter 3-Strategic Analysis

10. How an organization analyses its business portfolio explain on market growth rate and relative market share.
11. Discuss various issues in analysis of competition in an industry?

Chapter 4-Strategic Planning

12. Devise an ideal work plan for implementing a turnaround strategy in an organization?
13. Briefly explain the steps involved in formulating the corporate strategy.

Chapter 5-Formulation of Functional Strategy

14. Discuss the important areas where human resource manager can play a strategic role.
15. "Evaluating the worth of a business is central to strategy implementation." In the light of this statement, explain the methods that can be used for determining the worth of a business.

Chapter 6-Strategic Implementation and Control

16. How a corporate culture can be a strength and weakness of an organization?

17. Transformational leadership style may be appropriate in turbulent environment while transactional leadership style may be appropriate in settled environment. Comment.

Chapter 7-Reaching Strategic Edge

18. Explain in brief the themes of Six Sigma.
19. Compare the Traditional Management Practices with Total Quality Management (TQM).

SUGGESTED ANSWERS / HINTS

1. (a) Correct: Enterprises pursues multiple objectives rather than a single objective. In general, we may identify a set of business objectives pursued by a large cross-section of enterprises. These relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on. Enterprises seek to balance these objectives in some appropriate manner.

   (b) Correct: 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, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

   (c) Incorrect: Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change. Only rarely does an industry have more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance.

   (d) Incorrect: Different strategies offer different degrees of differentiation. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick copying by competitors are best. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation.

   (e) Correct: Strategic planning is process of determining organizational strategy. It gives direction to the organization and involves making decisions and allocating resources to pursue the strategy. It is the formal consideration of future course of an organization. It determines where an organization is going over the next year or more and the ways for going there.

(f) **Correct:** The management of funds can play a pivotal role in strategy implementation as it aims at the conservation and optimum utilization of funds objectives which are central to any strategic action. Organizations that implement strategies of stability, growth or retrenchment cannot escape the rigours of a proper management of funds. In fact, good management of funds often creates the difference between a strategically successful and unsuccessful company.

(g) **Incorrect:** Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business. When liquidation is evident (though it is difficult to say exactly when), an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process of liquidation.

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

(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:** TQM or Total Quality Management is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organisation and the supply chain is responsible for preventing rather than detecting defects.

2. (a) In simple economic terms, globalization refers to the process of integration of the world into one huge market. At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) it also means ability to compete in domestic markets with foreign competitors.

(b) Judgments about what strategy to pursue need to flow directly from solid analysis of a company's external environment and internal situation. The two most important situational considerations are (1) industry and competitive conditions and (2) a company's own competitive capabilities, resources, internal strengths and weaknesses, and market position.

(c) **Market Penetration:** The most common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.

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

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

Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. On the other hand forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organisations enter into businesses of distribution channels.

(b) The vision describes a future identity while the Mission serves as an ongoing and time-independent guide.

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

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

(c) Inbound logistics are the activities concerned with receiving, storing and distributing the inputs to the product/service. It includes all activities such as materials handling, stock control, transport etc.

Outbound logistics relate to collection, storage and distribution of the product to customers. It includes all activities such as storage/warehousing of finished goods, order processing, scheduling deliveries, operation of delivery vehicles, etc.

(d) For implementing six sigma, there are two separate key methodologies for existing and new processes. They are known as DMAIC and DMADV.

DMAIC is an acronym for five different steps used in six sigma - Define, Measure, Analyze Improve, and control. DMAIC methodology is directed towards improvement of existing product, process or service.

- Define: To begin with six sigma experts define the process improvement goals that are consistent with the strategy of the organization and customer demands. They discuss different issues with the senior managers so as to define what needs to done.
- Measure: The existing processes are measured to facilitate future comparison. Six sigma experts collect process data by mapping and measuring relevant processes.
- Analyze: Verify cause-and-effect relationship between the factors in the processes. Experts need to identify the relationship between the factors. They have to make a comprehensive analysis to identify hidden or not so obvious factor.
- Improve: On the basis of the analysis experts make a detailed plan to improve.
- Control: Initial trial or pilots are run to establish process capability and transition to production. Afterwards continuously measure the process to ensure that variances are identified and corrected before they result in defects.

DMADV is an acronym for Define, Measure, Analyze, Design, and Verify. DMADV is a strategy for designing new products, processes and services.

- Define: As in case of DMAIC six sigma experts have to formally define goals of the design activity that are consistent with strategy of the organization and the demands of the customer.
- Measure: Next identify the factors that are critical to quality (CTQs). Measure factors such as product capabilities and production process capability. Also assess the risks involved.
- Analyze: Develop and design alternatives. Create high-level design and evaluate to select the best design.
- Design: Develop details of design and optimise it. Verify designs may require using techniques such as simulations.
- Verify: Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

However, in spite of different orientation in two methodologies, conceptually there is overlapping between the DMAIC and DMADV as both are essentially having similar objectives.

4. (a) Strategic surveillance: Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, meetings, conferences, discussions at clubs or parties and so on can help in strategic surveillance.

   Strategic surveillance may be loose form of strategic control, but is capable of uncovering information relevant to the strategy.

   (b) The nature and extent of competition that a business is facing in the market is one of the major factors affecting the rate of growth, income distribution and consumer welfare. Businesses have to consider competitors' strategies, profits levels, costs, products and services when preparing and implementing their own business plans. While formulating strategies, organizations have to separately identify and concentrate on the competitors who are significantly affecting the business.

   Cooperation in a Competitive Environment: Some organizations within the same industry may form cartels. Organizations instead of competing may join together to decide explicit or tacit arrangements not known to general public. Cooperation may also be witnessed in highly competitive business environment. The benefits of cooperation also seen in Japan, where large cooperative networks of businesses are known as kieretsu. These are formed in order to enhance the abilities of individual member businesses to compete in their respective industries. A kieretsu is a loosely-coupled group of companies, usually in related industries.

   Cooperation on account of family ownership: Theoretically, cooperation generates automatically in businesses owned by a same family. However, several times internal strife and feuds creates problems for the business.

   (c) Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions are routine, tactical or strategic in nature. Strategic decisions are different from other decisions that are taken at various levels of the organization during day-to-day working of the organizations. They have long term implications, steer organisation to its future path, and have organisation wide implications and so on. These decisions are taken considering different internal and external factors. They are also taken with partial or no definite knowledge of different factors affecting the decision situation.

   (d) Retrenchment strategy implies substantial reduction in the scope of organization's activity. A business organization can redefine its business by divesting a major product line or market. While retrenching organizations might set objectives below the past level of objectives. It is essentially a defensive strategy adopted as a reaction to operating problems stemming from either internal mismanagement, unanticipated actions by competitors or hostile and unfavourable changes in the business environmental conditions. With a retrenchment strategy the endeavour of management is to raise the level of enterprise achievements focusing on improvements in the functional performance and cutting down operations with negative cash flows.

5. (a) When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

(b) Strategic groups are conceptually defined clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. Strong economic compulsions often constrain these firms from switching one competitive posture to another. Any industry contains only one strategic group when all firms essentially have identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the market place.

(c) Value chain refers to separate activities which are necessary to underpin an organization's strategies and are linked together both inside and outside the organization. Organizations are much more than a random collection of machines, money and people. Value chain of a manufacturing organization comprises of primary and supportive activities. The primary ones are inclusive of inbound logistics, operations, outbound logistics, marketing and sales, and services. The supportive activities relate to procurement, human resource management, technology development and infrastructure.

Value chain analysis helps in maintaining the long-term competitive position of an organization to sustain value for-money in its products or service. It can be helpful in identifying those activities which the organization must undertake at a threshold level of competence and those which represent the core competences of the organization.

(d) The elements considered for situational analysis are as follows:

- *Environmental factors:* What external and internal environmental factors are there that needs to be taken into account. This can include economic, political, demographic or sociological factors that have a bearing on the performance.
- *Opportunity and issue analysis:* What are the current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.
- *Competitive situation:* Analyze main competitors of organisation: Who are they, what they up to are, how they compare. What are their competitive advantages?
- *Distribution situation:* Review the distribution situation - how are the products moving through channels.
- *Product situation:* The details about current product. The details about current product may be divided into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs.

6. 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. Important elements of macro environment are:

- Demographic Environment: The term demographics denote characteristics of population in an area, district, country or in world. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, income, education, growth rate affect the business with different magnitude.
- Economic Environment: The economic environment refers to the nature and direction of the economy in which a company competes or may compete. The economic environment includes general economic situation in the region and the nation, conditions in resource markets (money, manpower, raw material and so on) which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.
- Political-Legal Environment: There are three important elements in political-legal environment:
- Government: Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business:
- Legal: Business organizations prefer to operate within a sound legal system. Legal environment consists of laws governing business.

- **Political:** Political pressure groups influence and limit organizations. Apart from sporadic movements against certain products, service and organizations, politics has deeply seeped into unions.
- **Socio-Cultural Environment:** Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated.
- **Technological Environment:** Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage.
- **Global Environment:** In simple economic terms, globalization refers to the process of integration of the world into one huge market. At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) it also means ability to compete in domestic markets with foreign competitors.

7. The business organization and its many environments have innumerous interrelationship that at times, it becomes difficult to determine exactly where the organization ends and where its environment begins. It is also difficult to determine exactly what business should do in response to a particular situation in the environment. Strategically, the businesses should make efforts to exploit the opportunity ad thought the threats.

   In this context following approaches may be noted:

   (i) **Least resistance:** Some businesses just manage to survive by way of coping with their changing external environments. They are simple goal-maintaining units. They are very passive in their behaviour and are solely guided by the signals of the external environment. They are not ambitious but are content with taking simple paths of least resistance in their goal-seeking and resource transforming behaviour.

   (ii) **Proceed with caution:** At the next level, are the businesses that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in that environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength. They regard that the pervasive complexity and turbulence of the external environmental elements as 'given' within the framework of which they have to function as adaptive-organic sub-systems. This is an admittedly sophisticated strategy than to wait for changes to occur and then take corrective-adaptive action.

   (iii) **Dynamic response:** At a still higher sophisticated level, are those businesses that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful. They not merely recognise and ward off threats; they convert threats into opportunities. They are highly conscious and confident of their own strengths and the weaknesses of their external environmental 'adversaries'. They generate a contingent set of alternative courses of action to be picked up in tune with the changing environment.

8. 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 main levels of management: corporate, business, and functional. General managers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility.

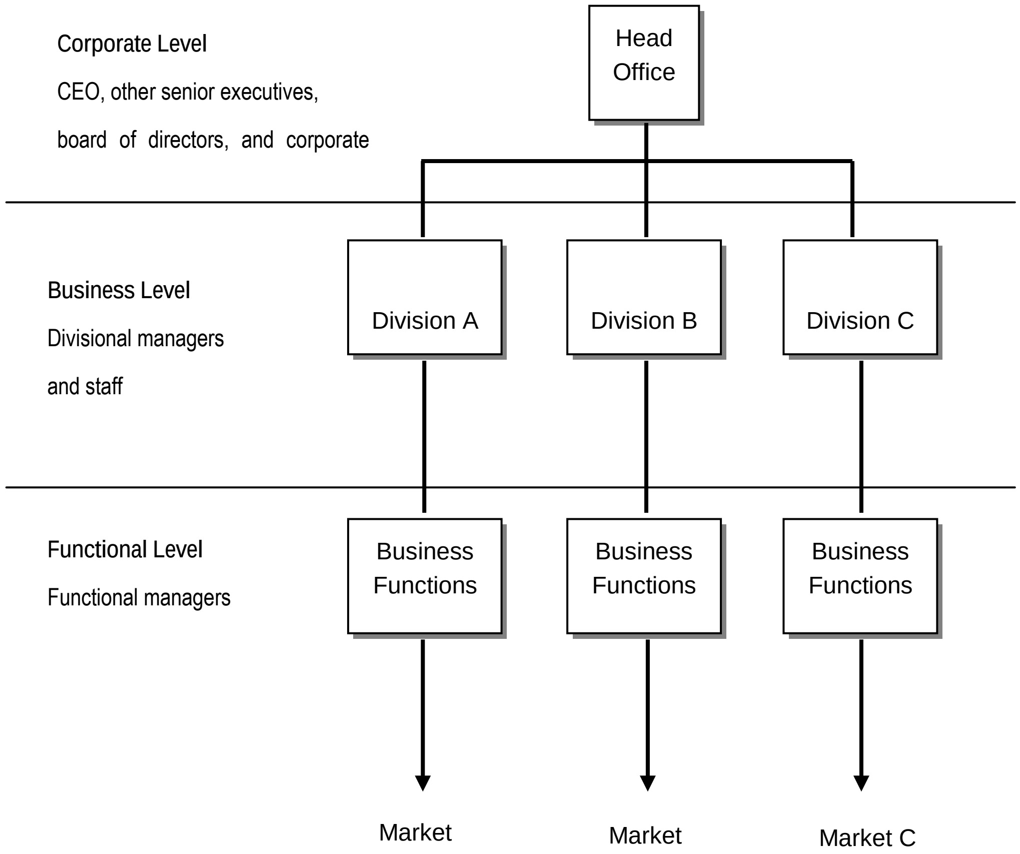


Figure : Level of Strategic Management

An organization is divided into several functions and departments that work together to bring a particular product or service to the market. If a company provides several different kinds of products or services, it often duplicates these functions and creates a series of self-contained divisions (each of which contain its own set of functions) to manage each different product or service. The general managers of these divisions then become responsible for their particular product line. The overriding concern of general managers is for the health of the whole company or division under their direction; they are responsible for deciding how to create a competitive advantage and achieve high profitability with the resources and capital they have at their disposal.

The corporate level of management consists of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals occupy the apex of decision making within the organization. The CEO is the principal general manager. In consultation with other senior executives, 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, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

It is not his specific responsibility to develop strategies for competing in the individual business areas, such as financial services. The development of such strategies is the responsibility of the general managers in these different businesses or business level managers.

Besides overseeing resource allocation and managing the divestment and acquisition processes, corporate-level managers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders). Corporate-level managers, and particularly the CEO, can be viewed as the guardians of shareholder welfare. It is their responsibility to ensure that the corporate and business strategies that the company pursues are consistent with maximizing shareholder wealth. If they are not, then ultimately the CEO is likely to be called to account by the shareholders.

A business unit is a self-contained division (with its own functions-for example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market. The principal general manager at the business level, or the business-level manager, is the head of the division. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. Thus, whereas corporate-level general managers are concerned with strategies that span individual businesses, business-level general managers are concerned with strategies that are specific to a particular business.

Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. 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. Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfil the strategic objectives set by business- and corporate-level general managers.

Functional managers provide most of the information that makes it possible for business- and corporate-level general managers to, formulate realistic and attainable strategies. Indeed, because they are closer to the customer than the typical general manager is, functional managers themselves 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. An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate - and business-level plans.

9. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are given below:

   - *Strategic issues require top-management decisions*: Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved. Hence, problems calling for strategic decisions require to be considered by top management.
   - *Strategic issues involve the allocation of large amounts of company resources*: It may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them.
   - *Strategic issues are likely to have a significant impact on the long term prosperity of the firm*: Generally the results of strategic implementation are seen on a long term basis and not immediately.
   - *Strategic issues are future oriented*: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
   - *Strategic issues usually have major multifunctional or multi-business consequences:* As they involve organization in totality they affect different sections of the organization with varying degree.
   - *Strategic issues necessitate consideration of factors in the firm's external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.*

10. The BCG growth-share matrix is the simplest way to portray a corporation'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. 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.

Using the matrix, organisations can identify four different types of products or SBU as follows:

- 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.
- 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.

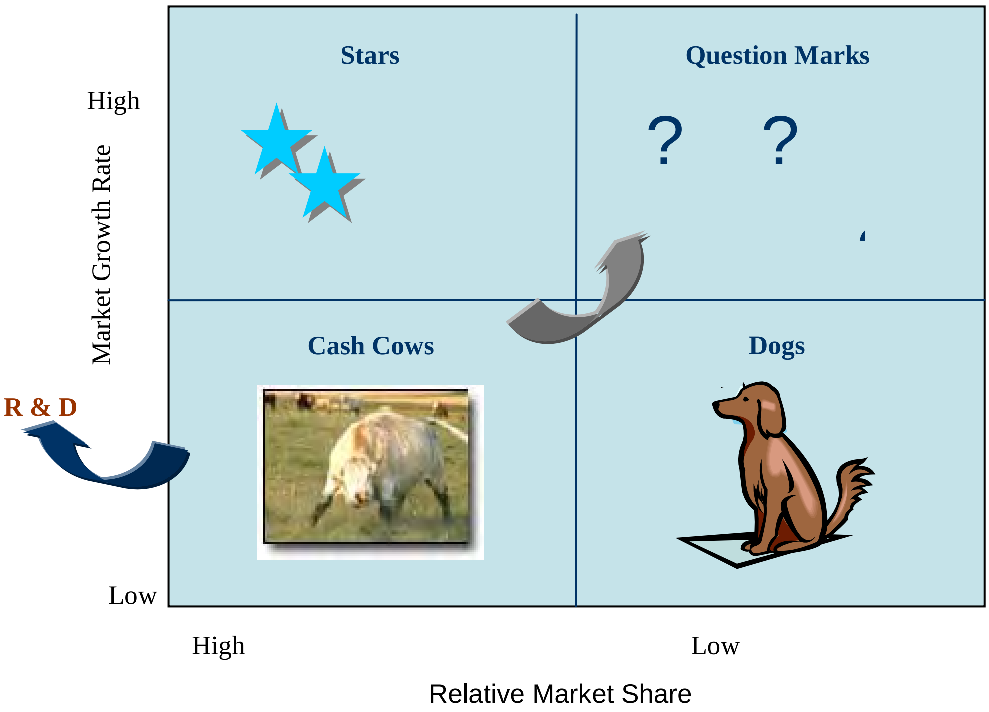


Figure: BCG Growth-Share Matrix

- Question Marks, sometimescalled 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.

- **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.

  Once the organisations have classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

  (i) **Build:**Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.

  (ii) **Hold:** Here the objective is to preserve market share.

  (iii) **Harvest:** Here the objective is to increase short-term cash flow regardless of long-term effect.

  (iv) **Divest:** Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

  The growth-share matrix has done much to help strategic planning study; however, there are problems and limitations with the method. BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly.

11. Refer to chapter 3. Industry and competitive analysis can be done using a set of concepts and techniques to get a clear fix on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry's profit outlook. It provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for company funds. The analysis entails examining a company's business in the context of a much wider environment. Industry and competitive analysis aims at developing insight in several issues. Analysing these issues build understanding of a firm's surrounding environment and, collectively, form the basis for matching its strategy to changing industry conditions and competitive realities. The issues are given below:

    - Dominant economic features of the industry.
    - Nature and strength of competition.
    - Triggers of change.

- Identifying the companies that are in the strongest/weakest positions.
- Likely strategic moves of rivals.
- Key factors for competitive success.
- Prospects and financial attractiveness of industry.

12. Action plan for turnaround strategy, an organization can implement:
    - Stage One – *Assessment of current problems*: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.
    - Stage Two – *Analyze the situation and develop a strategic plan*: Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.
    - Stage Three – *Implementing an emergency action plan*: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.
    - Stage Four – *Restructuring the business*: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

      During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.

      The 'people mix" is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

- Stage Five – *Returning to normal*: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

13. Refer to chapter 4. The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then subsequently initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate. The strategy-making/strategy-implementing process consists of five interrelated managerial tasks. These are:
    - Setting vision and mission.
    - Setting objectives.
    - Crafting a strategy.
    - Implementing and executing.
    - Evaluating performance and initiating corrective adjustments.
14. The prominent areas where the human resource manager can play strategic role are as follows:
    1. Providing purposeful direction: The human resource management must be able to lead people and the organization towards the desired direction involving people. The management have to ensure harmony between organisational objectives and individual objectives. Objectives are specific aims which must be in the line with the goal of the organization and the all actions of each person must be consistent with them.
    2. Creating competitive atmosphere: In the present business environment, maintaining competitive position or gains is an important objective of any business. Having a highly committed and competent workforce is very important for getting a competitively advantageous position.
    3. Facilitation of change: The human resource manager will be more concerned about furthering the organization not just maintaining it. He has to devote more time to promote acceptance of change rather than maintaining the status quo.
    4. Diversion of workforce: In a modern organization, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female, young and old, educated and uneducated, unskilled and professional employee and so on. Maintaining a congenial healthy work environment is a challenge for HR Manager. Motivation, maintaining morale and commitment are some of the key task that a HR manager has to perform.

5. **Empowerment of human resources:** Empowerment involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them.
6. **Building core competency:** The human resource manager has an important role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. Organization of business around core competence implies leveraging the limited resources of a firm. It needs creative, courageous and dynamic leadership having faith in organization's human resources.
7. **Development of works ethics and culture:** A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.

15. It is true that evaluating the worth of a business is central to strategy implementation. There are circumstances where it is important to evaluate the actual worth of the business. These circumstances can be wide and varied. At a higher level they may include acquisition, mergers or diversification. They may also include other situations such as fixing of share price in an issue. Acquisition, merger, retrenchment may require establishing the financial worth or cash value of a business to successfully implement such strategies.

    Various methods for determining a business's worth can be grouped into three main approaches.

    (i) **Net worth or stockholders' equity**: Net worth is the total assets minus total outside liabilities of an individual or a company.

    (ii) **Future benefits to owners through net profits**: These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

    (iii) **Market-determined business worth:** This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

16. The most important phenomenon which often distinguishes one organisation with another is its corporate culture. Corporate culture refers to a Company's values, beliefs, business principles, traditions, and ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers.

(i) As a Strength: Culture can facilitate communication, decision making and control and instil cooperation and commitment. An organization's culture could be strong and cohesive when it conducts its business according to clear and explicit set of principle and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organisation.

(ii) As a weakness: Culture, as a weakness can obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterised as weak when many sub-cultures exists, few values and behavioural norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty and sense of identity.

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

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

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

Transactional leadership style may be appropriate in 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.

18. The critical elements of six sigma can be put into six themes as follows:

- *Theme one – genuine focus on the customer:* Companies launching six sigma often to find that how little they really understand about their customers. In six sigma, customer focus becomes the top priority. For example, the measures of six sigma performance begin with the customer. Six sigma improvements are defined by their impact on customer satisfaction and value.

- *Theme two – data and fact-driven management:* Six sigma takes the concept 'of "management by fact" to a new, more powerful level. Despite the attention paid in recent years to improved information systems, knowledge management, and so on, many business decisions are still being based on opinions, assumptions and gut feeling. Six sigma discipline begins by clarifying what measures are key to gauging business performance and then gathers data and analyzes key variables. Problems are effectively defined, analyzed, and resolved. Six sigma also helps managers to answer two essential questions to support data-driven decisions and solutions.

  What data/information is really required?

  How to use the data/information for maximum benefit?
- *Theme three – processes are where the action is* Designing products and services, measuring performance, improving efficiency and customer satisfaction and so on. Six sigma positions the process as the key vehicle of success. One of the most remarkable breakthroughs in Six Sigma efforts to date has been convincing leaders and managers. Process may relate to build competitive advantage in delivering value to customers.
- *Theme four – proactive management:* In simple terms, being proactive means acting in advance of events rather than reacting to them. In the real world, though, proactive management means making habits out of what are, too often, neglected business practices: defining ambitious goals and reviewing them frequently, setting clear priorities, focusing on problem prevention rather than fire-fighting, and questioning why we do things instead of blindly defending them.

  Far from being boring or overly analytical, being truly proactive is a starting point for creativity and effective change. Six sigma, encompasses tools and practices that replace reactive habits with a dynamic, responsive, proactive style of management.
- *Theme five – boundaryless collaboration:* "Boundarylessness" is one of Jack Welch's mantras for business success. Years before launching six sigma, GE's chairman was working to break barriers and to improve teamwork up, down, and across organizational lines. The opportunities available through improved collaboration within companies and with vendors and customers are huge. Billions of dollars are lost every day because of disconnects and outright competition between groups that should be working for a common cause: providing value to customers.
- *Theme six – drive for perfection; tolerate failure:* Organizations need to make efforts to achieve perfection and yet at the same time tolerate failure. In essence, though, the two ideas are complementary. No company will get even close to six sigma without launching new ideas and approaches-which always involve some risk. Six sigma cannot be implemented by individuals who are overly cautious and are scared of making mistakes.

19. TQM is quite different from traditional management practices, requiring changes in organizational processes, beliefs and attitudes, and behaviours. "Traditional management" means the way things are usually done in most organizations in the absence of a TQM focus. Many "traditional" organizations have been applying TQM principles all along, so not all of these comments pertain to every organization. The nature of TQM differs from common management practices in many respects. Some of the key differences are as follows:

    - Strategic Planning and Management: Quality planning and strategic business planning are indistinguishable in TQM. Quality goals are the cornerstone of the business plan. Measures such as customer satisfaction, defect rates, and process cycle times receive as much attention in the strategic plan as financial and marketing objectives.
    - Changing Relationships with Customers and Suppliers: In TQM, quality is defined as products and services beyond present needs and expectations of customers. Innovation is required to meet and exceed customers' needs. Traditional management places customers outside of the enterprise and within the domain of marketing and sales. TQM views everyone inside the enterprise as a customer of an internal or external supplier, and a supplier of an external or internal customer. Marketing concepts and tools can be used to assess internal customer needs and to communicate internal supplier capabilities.
    - Organizational Structure: TQM views the enterprise as a system of interdependent processes, linked laterally over time through a network of collaborating (internal and external) suppliers and customers. Each process is connected to the enterprise's mission and purpose through a hierarchy of micro- and macro-processes. Every process contains sub-processes and is also contained within a higher process. This structure of processes is repeated throughout the hierarchy.
    - Organizational Change: In TQM the environment in which the enterprise interacts is considered to be changing constantly. Management's job, therefore, is to provide the leadership for continual improvement and innovation in processes and systems, products, and services. External change is inevitable, but a favourable future can be shaped.
    - Teamwork: In TQM individuals cooperate in team structures such as quality circles, steering committees, and self-directed work teams. Departments work together toward system optimization through cross-functional teamwork.
    - Motivation and Job Design: TQM managers provide leadership rather than overt intervention in the processes of their subordinates, who are viewed as process managers rather than functional specialists. People 'are motivated to make meaningful contributions to what they believe is an important and noble cause, of value to the enterprise and society. The system enables people to feel like winners.

Nov 13

SECTION – B: STRATEGIC MANAGEMENT

QUESTIONS

Correct/Incorrect with reasoning

1. State with reasons which of the following statements are correct/incorrect:
   - (a) Porter's five forces model considers substitute products as a latent source of competition in an industry.
   - (b) A strategic vision is a road map of a company's future.
   - (c) Successful businesses have to recognize different elements of environment.
   - (d) Growth share matrix is popularly used for resource allocation.
   - (e) Balance scorecard is a combination of strategic and marketing objectives.
   - (f) Strategic planning is an attempt to improve operational efficiency.
   - (g) With the help of strategies, organisations easily overcome their rivals.
   - (h) Human resource management is important for strategic management.
   - (i) An organisation's culture is always an obstacle to successful strategy implementation.
   - (j) The internet can be an economical means of delivering customer services.

Explain the concepts

2. Explain the meaning of the following concepts:
   - (a) Key success factors
   - (b) Corporate strategy
   - (c) Relationship marketing
   - (d) Value chain Analysis

Differences between the two concepts

3. Distinguish between the following:
   - (a) Vertically integrated diversification and Horizontally integrated diversification.
   - (b) Strategy formulation and Strategy implementation.
   - (c) TQM and Traditional management practices.
   - (d) Logistic management and Supply chain management.

Short notes

4. Write short notes on the following:
   - (a) Strategic business unit.

(b) Best–cost provider strategy.

(c) BPR.

(d) Importance of Strategic Management.

Brief answers

5. Briefly answer the following questions:

    (a) Explain in brief environmental scanning.

    (b) What is meant by retrenchment strategy?

    (c) Can a change in the elected government affect the business environment? Explain.

    (d) Discuss the relevance of Tows Matrix in strategic planning process.

Chapter 1-Business Environment

6. The external environment holds considerable power over the organization. How?
7. How PESTLE analysis is used for analyzing the macro environment? Explain.

Chapter 2-Business Policy and Strategic Management

8. What tips can you offer to write a 'right' Mission Statements?
9. What is Strategic Management? What benefits accrue by following a strategic approach to managing?

Chapter 3-Strategic Analysis

10. Describe the construction of BCG matrix and discuss its utility in strategic management.
11. Explain the Ansoff's product market growth matrix.

Chapter 4-Strategic Planning

12. Many organizations in order to achieve quick growth use strategies such as mergers and acquisitions. Explain. Discuss various types of mergers.
13. What is turnaround management? What are various stages in its implementation?

Chapter 5-Formulation of Functional Strategy

14. What are the requirements for the successful implementation of supply chain management system? Discuss.
15. What is meant by Functional strategies? In term of level where will you put them? Are functional strategies really important for business?

Chapter 6-Strategic Implementation and Control

16. A company is planning to introduce changes in its structure, technology and people. Explain how Kurt Lewin's change process can help this organisation.
17. Explain the various types of strategic control.

Chapter 7-Reaching Strategic Edge

18. Adoption of six sigma can bring paradigm change in the organization. Discuss how six sigma can improve the functioning of business organization.

19. What is Benchmarking? What are the areas where benchmarking can help.

SUGGESTED ANSWERS / HINTS

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

   (b) Correct: A Strategic vision is a road map 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.

   (c) Correct: To be successful businesses have to recognise different elements of the environment. They have to also respect, adapt to or have to manage and influence them. Businesses must continuously monitor and adapt to the environment to survive and prosper.

   (d) Correct: Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Primarily it categorises organisations/products on the basis two factors consisting of the growth opportunities and the market share enjoyed.

   (e) Incorrect: Balance scorecard is a combination of strategic and financial objectives. It measure company performance, requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made.

   (f) Incorrect: Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. They relate to the top level in the organisation and relate the organisation with its environment. Operational efficiency is not a direct outcome of strategic planning.

   (g) Incorrect: Although often strategies are aimed to overcome rivals, it is not easy task. Competitors are simultaneously developing strategies that act as forces opposing strategies of an organisation. Winning is tedious and difficult task.

(h) Correct: The human resource management helps the organization to effectively deal with the external environmental challenges. The function has been accepted as a 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.

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

(j) Correct: The internet can be an economical means of delivering customer services. It provides innovative opportunities for handling customer service activities. Companies are discovering ways to deliver services online, thus curtailing the need to keep company personnel at the facilities of major customers, reducing staffing levels at telephonic call centers, and cutting the time required for service technicians to respond to customer faxes and e-mail messages.

2 (a) Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change. Only rarely does an industry have more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance.

(b) Corporate strategy is basically the growth design of the firm; it spells out the growth objective - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth. It serves as the design for filling the strategic planning gap. It also helps build the relevant competitive advantages.

(c) Relationship marketing is the process of creating, maintaining, and enhancing strong, value-laden relationship with customers and other stakeholders, thus, providing special benefits to select customers to strengthen bonds. It will go a long way in building relationship.

(d) Value chain analysis refers to separate activities which are necessary to underpin an organization's strategies and are linked together both within and around the organization. Organizations are much more than a random collection of machines, money and people. Value chain of a manufacturing organization comprises of primary and supportive activities.

3. (a) In vertically integrated diversification, firms opt to engage in businesses that are related to their existing businesses. The firm remains vertically within the same process. Sequence moves forward or backward in the chain and enters specific

product/process steps with the intention of making them into new businesses for the firm.

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

(b) Strategy formulation and implementation can be distinguished in the following ways:

Strategy Formulation	Strategy Implementation
- It involves the design and choice of appropriate organisational strategies.	- It is the process of putting the various strategies into action.
- It is positioning forces before the action.	- It is managing forces during the action
- It focuses on effectiveness.	- It focuses on efficiency.
- It is primarily an intellectual process.	- It is primarily an operational process.
- It requires good intuitive and analytical skills.	- It requires special motivation and leadership skills.
- It requires coordination among a few individuals.	- It requires coordination among many individuals.

(c) Total Quality Management is different from traditional management practices, requiring changes in organisational processes, beliefs and attitudes, and behaviours. The nature of TQM differs from common management practices in many respects. Some of the key differences are as follows:

(i) Strategic Planning and Management: Quality planning and strategic business planning is indistinguishable in TQM. Customer satisfaction, defect rates and process cycle times receive very high attention on TQM which is not the case in traditional management.

(ii) Changing Relationships with customers and suppliers: Distinguishable, innovation is essential to meet and exceed customers' needs. In TQM quality is defined as product and services. Traditional management places customers outside of the enterprises and within the domain of marketing and sales.

(iii) Organizational Structure: TQM is also distinguishable as it views enterprise as a system of interdependent processes. Every process contains sub-processes and is also contained within a higher process.

(iv) Organizational Change: In TQM the environment in which the enterprise interacts is considered to be changing constantly. Management's job, therefore, is to provide the leadership for continual improvement and innovation in processes and systems, products, and services. TQM recognises the inevitability of external change and focuses on shaping the future.

(v) Teamwork: In TQM, individuals cooperate in team structure such as quality circles, steering committees, and self-directed work teams. Departments work together toward system optimization through cross-functional teamwork.

(vi) Motivation and Job Design: TQM managers provide leadership and motivation rather than overt intervention in the processes of their subordinates who are viewed as process managers rather than functional specialists.

(d) Supply chain management is an extension of logistic management. However, there are differences between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfillment of orders, inventory management and supply/demand planning. Although these activities also form part of supply chain management, the latter is much broader. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management is an integrating function of all the major business activities and business processes within and across organisations. Supply Chain Management is a systems view of the linkages in the chain consisting of different channel partners – suppliers, intermediaries, third-party service providers and customers. Different elements in the chain work together in a collaborative and coordinated manner. Often it is used as a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price.

4. (a) Strategic Business Unit: A strategic business unit (SBU) is a unit of the company that has a separate mission and objectives which can be planned independently from other company businesses. SBU can be a company division, a product line within a division or even a single product/brand, specific group of customers or geographical location. The SBU is given the authority to make its own strategic decisions within corporate guidelines as long as it meets corporate objectives.

(b) Best-cost provider strategy: Best-cost provider strategy involves providing customers more value for the money by emphasizing low cost and better quality difference. It can be done:

(a) through offering products at lower price than what is being offered by rivals for products with comparable quality and features or

(b) charging similar price as by the rivals for products with much higher quality and better features.

(c) BPR: BPR stands for business process reengineering. It refers to the analysis and redesign of workflows both within and between the organisation and the external entities. Its objective is to improve performance in terms of time, cost, quality, and responsiveness to customers. It implies giving up old practices and adopting the improved ones. It is an effective tool of realising new strategies.

Improving business processes is paramount for businesses to stay competitive in today's marketplace. New technologies are rapidly bringing new capabilities to businesses, thereby raising the strategical options and the need to improve business processes dramatically. Even the competition has become harder. In today's market place, major changes are required to just stay even.

(d) Importance of Strategic Management: Strategic Management is very important for the survival and growth of business organizations in dynamic business environment. Other major benefits of strategic management are as follows:

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

5. (a) Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions. It is the process of gathering information, analyzing it and forecasting the impact of all predictable environmental changes. The managers are able to decide the future path. Scanning must identify the threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for another. The factors which need to be considered for environmental scanning are

events, trends, issues and expectations of the different interest groups.

(b) Retrenchment strategy implies substantial reduction in the scope of organization’s activity. A business organization can redefine its business by divesting a major product line or market. While retrenching organizations might set objectives below the past level of objectives. It is essentially a defensive strategy adopted as a reaction to operating problems stemming from either internal mismanagement, unanticipated actions by competitors or hostile and unfavourable changes in the business environmental conditions. With a retrenchment strategy the endeavour of management is to raise the level of enterprise achievements focusing on improvements in the functional performance and cutting down operations with negative cash flows.

(c) The type of government running a country is a powerful influence on business. Businesses are highly guided and influenced by government actions. Change in the elected government relates to the change in political environment. To an extent, even legal environment may change with the changes in the Government. It has a strong bearing on the conduct of business as it leads to significant changes in the economic policies and the regulatory framework. It generally reflects the political ideology of the political party or alliances. The government’s policy of promoting select sectors further impacts the functioning of business organizations.

Businesses are affected by the factors such as political stability, the political ideology and practices of the ruling party, the purposefulness and efficiency of governmental agencies, the extent and nature of governmental intervention in the economy and the industry, Government policies (fiscal, monetary, industrial, labour and export-import policies), specific legal enactments and framework and so on.

(d) The TOWS matrix illustrates how the external opportunities and threats facing a particular corporation can be matched with company's internal strengths and weaknesses to result in possible strategic alternatives to be competitive. It is a good way to use brainstorming and to create alternative strategies that might not otherwise be considered. It forces strategic managers to design various growth, stability or retrenchment strategies. It can be used to generate corporate as well as business strategies.

Moreover, TOWS Matrix is very useful for generating a series of alternatives that the decision makers of a company or business unit might not otherwise have considered. Nevertheless, the TOWS Matrix is only one of the many ways to generate alternative strategies.

In a way TOWS is considered to be an improvement over the SWOT. However, it is not undermining the SWOT analysis.

6. The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources, information

and other inputs. It offers a range of opportunities, incentives and rewards on the one hand and a set of constraints, threats and restrictions on the other. In both ways, the organization is conditioned and constrained. The external environment is also in a position to impose its will over the organization and can force it to fall in line. Governmental control over the organization is one such power relationship. Other organizations, competitors, markets, customers, suppliers, investors etc., also exercise considerable collective power and influence over the planning and decision making processes of the organization.

In turn, the organization itself is sometimes in a position to wield considerable power and influence over some of the elements of the external environment by virtue of its command over resources and information. The same elements which exercise power over the organization are also subject to the influence and power of the organization in some respects. To the extent that the organization is able to hold power over the environment increases its autonomy and freedom of action. It can dictate terms to the external forces and mould them to its will.

7. The term PESTLE is used to describe a framework for analysis of macro environmental factors. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. PESTLE is an acronym for:

- P- political T- technological
- E- economic L- legal
- S- socio-cultural E- environmental

The PESTLE analysis is a simple to understand and quick to implement. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

The Key Factors

- Political factors are how and to what extent a government intervenes in the economy and the activities of corporate. Political factors may also include goods and services which the government wants to provide or be provided and those that the government does not want to be provided.
- Economic factors have major impacts on how businesses operate and take decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. The money supply, inflation, credit flow, per capita income, growth rates have a bearing on the business decisions.
- Social factors affect the demand for a company's products and how that company operates.
- Technological factors can determine barriers to entry, minimum efficient production

level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

- Legal factors affect how a company operates, its costs, and the demand for its products.
- Environmental factors affect industries such as tourism, farming, and insurance. Growing awareness to climate change is affecting how companies operate and the products they offer.

On the basis of these, it should be possible to identify a number of key environmental influences, which are in effect, the drivers of change. These are the factors that require to be considered in matrix. A typical example is as follows:

Political • Political stability • Political principles and ideologies • Current and future taxation policy • Regulatory bodies and processes • Government policies • Government term and change • Thrust areas of political leaders.	Economic • Economic situation & trends • Market and trade cycles • Specific industry factors • Customer/end-user drivers • Interest and exchange rates • Inflation and unemployment • Strength of consumer spending
Social • Lifestyle trends • Demographics • Consumer attitudes and opinions • Brand, company, technology image • Consumer buying patterns • Ethnic/religious factors • Media views and perception	Technological • Replacement technology/solutions • Maturity of technology • Manufacturing maturity and capacity • Innovation potential • Technology access, licensing, patents • Intellectual property rights and copyrights
Legal • Business and Corporate Laws • Employment Law • Competition Law • Health & Safety Law • International Treaty and Law • Regional Legislation	Environmental • Ecological/environmental issues • Environmental hazards • Environmental legislation • Energy consumption • Waste disposal

8. Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup. Following points are useful while writing mission of a company:
   - Good mission statements are highly personalized – unique to the organization for which they are developed.
   - One of the roles of a mission statement is to give the organization its own special identity, business emphasis and path for development.
   - A company's business is defined by what needs it is trying to satisfy, customer groups it is targeting, technologies and competencies it uses and the activities it performs.
   - Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
   - The mission should not be to make profit.
9. In a highly competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must have a system of managing strategically.

   Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilise all facets of the organisation), and functional plans (plans to carry out daily operations from the different functional disciplines).

   The overall objective of strategic management is two fold:
   - To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.
   - To guide the company successfully through all changes in the environment.

   The following are the benefits of strategic approach to managing:
   - Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner.
   - 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 do.

- Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It help organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

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

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

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

Thus the BCG matrix depicts four quadrants as per following:

Market Growth Rate			
	High	Stars	Question Marks
	Low	Cash Cows	Dogs
		High	*Low*

Relative Market Share

Different types of business represented by either products or SBUs can be classified for portfolio analysis 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 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.

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

(a) Build with the aim for long-term growth and strong future.

(b) Hold or preserve the existing market share.

(c) Harvest or maximize short-term cash flows.

(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

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

11. 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 it markets in new or existing products in both new and existing markets. The product/market growth matrix is a portfolio-planning tool for identifying company growth opportunities.

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

Market Penetration: 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. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors.

Penetration is also done by effort on increasing usage by existing customers.

Market Development: 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 current company products. This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

Product Development: Product development is 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. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

Diversification: 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. This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically the business is moving into markets without proper experience.

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.

12. Many organizations in order to achieve quick growth, expand or diversify use strategies such as mergers and acquisitions. This also helps in deploying surplus funds.

Merger and Acquisition Strategy

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.

Some organizations prefer to grow through mergers. 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.

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 recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization takes over a weaker entity.

Types of Mergers

1. **Horizontal merger:** Horizontal mergers are combinations of firms engaged in the same industry. It is a merger with a direct competitor. The principal objective behind this type of mergers is to achieve economies of scale in the production process by shedding duplication of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on. For example, formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.
2. **Vertical merger:** It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms. If an organization takes over its supplier/producers of raw material, then it leads to backward integration. On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels. Vertical merger results in operating and financial economies. Vertical mergers help to create an advantageous position by restricting the supply of inputs or by providing them at a higher cost to other players.
3. **Co-generic merger:** In co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger include the extension of the product line or acquiring components that are required in the daily operations. It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements. For example, an organization manufacturing refrigerators can diversify by merging with another organization having business in kitchen appliances.
4. **Conglomerate merger:** Conglomerate mergers are the combination of organizations that are unrelated to each other. There are no linkages with respect to customer groups, customer functions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these factors.

13. Turnaround Management is the formulation and implementation of a strategic plan and a set of actions aimed towards corporate renewal and restructuring, during times of severe distress. Rising competition, business cycles and economic volatility create a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Through turnaround the organization’s first objective is to survive and then grow in the market. Once turnaround is successful the organization may turn to focus on growth.

Action plan for turnaround strategy

(i) Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

(ii) Analyze the situation and develop a strategic plan: Before making any major changes, chances of survival may be ascertained. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

(iii) Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and raise enough funds to implement the turnaround strategies.

(iv) Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed. Organizations may even withdraw from certain markets. The 'people mix' is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

(v) Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts to take the organisation on growth path.

14. Successful implementation of supply management system requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The

partners need to link together to share information through electronic data interchange and take decisions in timely manner. Implementing and successfully running supply chain management system will involve:

1. Product development: Customers and suppliers must work together in the product development process. Right from the start the partners will have proper knowledge. Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.
2. Procurement: Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.
3. Manufacturing: Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle.
4. Physical distribution: Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus supply chain management links a marketing channel with customers.
5. Outsourcing: Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.
6. Customer services: Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn help in producing positive feelings in the organization and the customers.
7. Performance measurement: There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

15. Once higher level corporate and business strategies are developed, management need to formulate and implement strategies for functional areas such as marketing, financial, production and Human Resource. For effective implementation, strategists have to provide direction to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in

which strategies are implemented. Strategy of one functional area can not be looked at in isolation, because it is the extent to which all the functional tasks are interwoven that determines the effectiveness of the major strategy.

For each functional area, first the major sub areas are identified and then for each of these sub functional areas, contents of functional strategies, important factors, and their importance in the process of strategy implementation are identified.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the higher level strategies and guidelines therein that are set at higher levels of an organisation. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

Major strategies need to be translated to lower levels to give holistic strategic direction to an organisation. Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. The reasons why functional strategies are really important and needed for business can be given as follows:

The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.

- Functional strategies facilitate flow of strategic decisions to the different parts of an organisation.
- They act as basis for controlling activities in the different functional areas of business.
- The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.
- Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

16. The organisation can implement the desired changes in its structure, technology and people through three phases of the change process as given by Kurt Lewin. These stages are: unfreezing, changing and refreezing.

    (i) Unfreezing the situation: Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions.

(ii) **Changing to new situation:** Once the unfreezing process has been completed, members' behaviour patterns need to be redefined. This can be done through compliance (through rewards and punishment), identification (impressing people to identify with new patterns) and internalisation (changing the thought processes)

(iii) **Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life replacing the former behaviour completely for successful and permanent change to take place.

Change process is not a onetime 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. By the change management process, organizations can better manage the required strategic change. In the given scenario, the company may:

- Create awareness on compelling reasons for change.
- Steer the organization on the desired path with wide acceptance.
- Implement and install the necessary changes in the desired manner for the overall benefit of the organisation.
- Aim to stabilize the operation at a higher level of performance.

17. **Types of Strategic Control:** There are four types of strategic control as follows:

♦ **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

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

(ii) Industry factors such as competitors, suppliers, substitutes.

♦ **Strategic surveillance:** Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, meetings, conferences, discussions at clubs or parties and so on can help in strategic surveillance.

Strategic surveillance may be loose form of strategic control, but is capable of uncovering information relevant to the strategy.

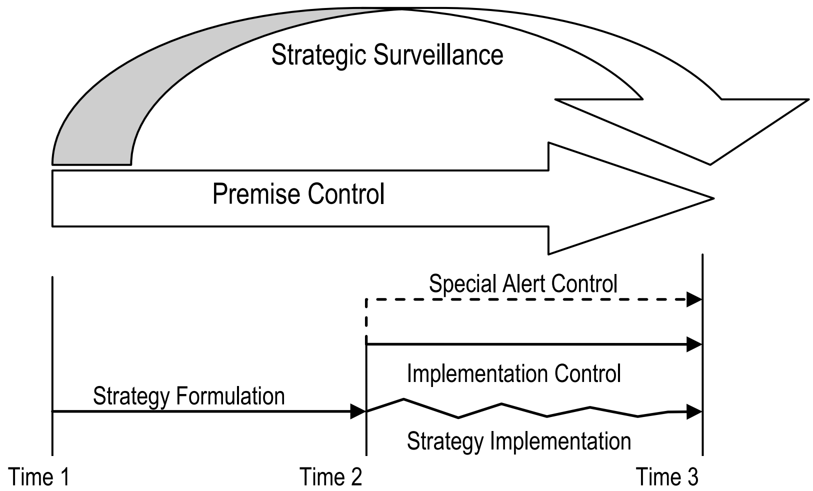
♦ **Special alert control:** At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy. Organizations to cope up with these eventualities, form crisis management teams.

- 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 associated with incremental steps and actions.

  Strategic implementation control is not a replacement to operational control. Unlike operational controls, it continuously monitors the basic direction of the strategy. The two basis forms of implementation control are:

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

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



Source: From book "Strategic management-formulation, Implementation and control" by John A Pearce II, Richard B Robinson, Jr. and Amita Mital.

These four strategic controls steer the organisation and its different sub-systems to the right track. They help the organisation to negotiate through the turbulent and complex environment.

18. A significant difference between six sigma and seemingly similar programs of past years is the degree to which management plays a key role in regularly monitoring program results and accomplishments. Six sigma is a system that combines both strong

leadership and grassroots energy and involvement. In addition, the benefits of six sigma are not just financial. People at all levels of a six sigma company find that better understanding of customers, clearer processes, meaningful measures, and powerful improvement tools make their work more rewarding.

The critical elements of six sigma can be put into six themes as follows:

- *Theme one – genuine focus on the customer:* Companies launching six sigma often find that how little they really understand their customers. In six sigma, customer focus becomes the top priority. For example, the measures of six sigma performance begin with the customer. Six sigma improvements are defined by their impact on customer satisfaction and value.
- *Theme two – data and fact-driven management:* Six sigma takes the concept of "management by fact" to a new, more powerful level. Despite the attention paid in recent years to improved information systems, knowledge management, and so on, many business decisions are still being based on opinions, assumptions and gut feeling. Six sigma discipline begins by clarifying what measures are key to gauging business performance and then gathers data and analyzes key variables. Problems are effectively defined, analyzed, and resolved. Six sigma also helps managers to answer two essential questions to support data-driven decisions and solutions.

  a. What data/information is really required?

  b. How to use the data/information for maximum benefit?
- *Theme three – processes are where the action is:* Six sigma positions the process as the key vehicle of success. Processes like designing products and services, measuring performance, improving efficiency and customer satisfaction, may relate to build competitive advantage in delivering value to customers.
- *Theme four – proactive management:* In simple terms, being proactive means acting in advance of events rather than reacting to them. In the real world, though, proactive management means making habits out of what are, too often, neglected business practices: defining ambitious goals and reviewing them frequently, setting clear priorities, focusing on problem prevention rather than fire-fighting, and questioning why we do things instead of blindly defending them.

  Far from being boring or overly analytical, being truly proactive is a starting point for creativity and effective change. Six sigma, encompasses tools and practices that replace reactive habits with a dynamic, responsive, proactive style of management.
- *Theme five – boundaryless collaboration:* "Boundarylessness" is one of Jack Welch's mantras for business success. Years before launching six sigma, GE's chairman was working to break barriers and to improve teamwork up, down, and across organizational lines. The opportunities available through improved collaboration within companies and with vendors and customers are huge. Billions

of dollars are lost every day because of disconnects and outright competition between groups that should be working for a common cause: providing value to customers.

- *Theme six – drive for perfection; tolerate failure:* Organizations need to make efforts to achieve perfection and yet at the same time tolerate failure. In essence, though, the two ideas are complementary. No company will get even close to six sigma without launching new ideas and approaches - which always involve some risk. Six sigma cannot be implemented by individuals who are overly cautious and are scared of making mistakes.

19. In simple words, 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. For example, a customer support engineer of a television manufacturer attends a call within forty-eight hours. If the industry norm is that all calls are attended within twenty-four hours, then the twenty-four hours can be a benchmark.

    Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization. Benchmarking can help in almost all aspect of business that are amenable to comparison and are significant to business. Typically organisations can use benchmarking process to achieve improvement in diverse range of management function like:

    - Maintenance operations
    - Assessment of total manufacturing costs
    - Product development
    - Product distribution
    - Customer services
    - Plant utilization levels
    - Human resource management

SECTION – B: STRATEGIC MANAGEMENT

QUESTIONS

Correct/Incorrect with reasoning

1. State with reasons which of the following statements are correct/incorrect:
   (a) PESTLE analysis is used to monitoring the micro environmental factors.
   (b) Growth share matrix is popularly used for resource allocation.
   (c) For a small entrepreneur vision and mission are irrelevant.
   (d) Vertical diversification integrates firms forward or backward in the product chain.
   (e) Production strategy implements, supports and drives higher strategies.
   (f) SBU concepts facilitate multi-business operations.
   (g) Strategies may require changes in organizational structure.
   (h) Benchmarking is a remedy for all problems faced by organizations.
   (i) The thrust of operational control is on individual tasks or transactions.

Explain the concepts

2. Explain the meaning of the following concepts:
   (a) Demographic environment
   (b) ADL Matrix
   (c) Directional Strategies
   (d) Synchro-marketing

Differences between the two concepts

3. Distinguish between the following:
   (a) Transformational and transactional leadership
   (b) SWOT and TOWS Matrix
   (c) Mergers and acquisitions

Short notes

4. Write short notes on the following:
   (a) Global strategy
   (b) Corporate culture
   (c) Value chain analysis
   (d) Co-generic merger

Brief answers

5. Briefly answer the following questions:

   (a) "Environment is the sum of several external and internal forces that affect the functioning of business." Explain.

   (b) Liquidation is the last resort option for a business organisation. Explain.

   (c) Briefly explain the need of turnaround strategy.

   (d) 'A network structure is suited to unstable environment.' Elaborate.

Chapter 1-Business Environment

6. Discuss the Porter's model for systematically diagnosing the significant competitive pressures in a market.

7. Explain how technological factors present an opportunity as well as threat to a particular business organization.

Chapter 2-Business Policy and Strategic Management

8. What do you understand by strategic management? Discuss its framework.

9. "Strategy is partly proactive and partly reactive." Do you agree? Give reasons for your answer.

Chapter 3-Strategic Analysis

10. Explain the model which has been inspired from traffic control lights.

11. An organization wants to start a new business and would like to understand the structure of competition in the industry. Identify the factors that an organization should analyze.

Chapter 4-Strategic Planning

12. What do you understand by 'Strategy'? Explain the four generic strategies as discussed by Glueck and Jauch.

13. How a company can deal with strategic uncertainty?

Chapter 5-Formulation of Functional Strategy

14. What are the three major research and development approaches for implementing strategies.

15. "Evaluating the worth of a business is central to strategy implementation." In the light of this statement, explain the methods that can be used for determining the worth of a business.

Chapter 6-Strategic Implementation and Control

16. How the management of internal linkages in the value chain analysis creates competitive advantage?

17. An important part of strategic management process is implementation of strategy. Discuss the relationship of soundness of strategy formulation with the quality of implementation.

Chapter 7-Reaching Strategic Edge

18. Define TQM? Explain the various principles that guide success of TQM.
19. 'The growing use of the internet by businesses and consumers is changing the competitive scenario.' Identify the characteristics of the E-commerce environment doing so.

SUGGESTED ANSWERS / HINTS

1. (a) Incorrect: The term PESTLE Analysis is used to describe a framework for analysis of macro environmental factors. It involves identification of political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. The advantage of this tool is that it encourages management into proactive and structured thinking.

   (b) Correct: Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Primarily, it categorises organisations/products on the basis two factors consisting of the growth opportunities and the market share enjoyed.

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

   (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 products with the intention of making them part of new businesses for the firm.

   (e) Correct: For effective implementation of higher level strategies, strategists need to provide direction to functional managers, including production, regarding the plans and policies to be adopted. Production strategy provides a path for transmitting corporate and business level strategy to the production systems and makes it operational. It may relate to production planning, operational system, control and research & development.

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

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

(h) Incorrect: Benchmarking is an approach of setting goals and measuring productivity based on best industry practices and is a process of continuous improvement in search for competitive advantage. However, it is not panacea for all problems. Rather, it studies the circumstances and processes that help in superior performance. Better processes are not merely copied. Efforts are made to learn, improve and evolve them to suit the organizational circumstances.

(i) Correct: The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

2 (a) Demographic Environment: The term demographics denote characteristics of population in an area, district, country or in world. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, income, education, growth rate affect the business with different magnitude.

(b) ADL Matrix: The ADL matrix which has derived its name from Arthur D. Little is a portfolio analysis method that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment.

(c) The corporate strategies a firm can adopt have been classified into four broad categories: stability, expansion, retrenchment, and combination known as directional/grand strategies. They are often called master or business strategies to provide basic direction for strategic actions toward achieving long-term business objectives.

(d) Synchro-marketing: When the demand for the product is irregular causing idle capacity or over-worked capacities, synchro-marketing can be used to find ways to alter the pattern of demand so that it equates more suitably with the pattern of supply. It can be done through flexible pricing, promotion, and other incentives.

3. (a) *Transformational leadership style* use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style

may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

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

Transactional leadership style may be appropriate in settled environment, in growing or mature industries, and in organizations that are performing well.

(b) TOWS Analysis is a variant of the classic business tool, SWOT Analysis. TOWS and SWOT are acronyms for different arrangements of the words Strengths, Weaknesses, Opportunities and Threats. By analyzing the external environment (threats and opportunities), and internal environment (weaknesses and strengths), we can use these techniques to think about the strategy of a company. Following are the some basic differences between TOWS and SWOT matrix:

- TOWS emphasises on external environment whereas SWOT emphasises on internal environment.
- TOWS matrix is about the combinations of SO, ST, WO, WT whereas SWOT matrix is about S, W, O, T.
- TOWS analysis is an action tool whereas SWOT analysis is a planning tool.
- TOWS is particularly useful in evaluating the potential impact of sudden events or developments while SWOT is usually employed in evaluating a company's business plan.

(c) Merger and acquisition in simple words are defined as a process of combining two or more organizations together.

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

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

4. (a) A global strategy assumes more standardization of products across country boundaries. Under this strategy, the company tries to focus on a low cost structure by leveraging their expertise in providing certain products and services and concentrating the production of these standard products and services at a few favourable locations around the world. Competitive strategy is centralized and controlled by the home office.

(b) 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.

(c) Value chain analysis refers to separate activities which are necessary to underpin an organization's strategies and are linked together both within and around the organization. Organizations are much more than a random collection of machines, money and people. Value chain of a manufacturing organization comprises of primary and supportive activities.

(d) In Co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger includes the extension of the product line or acquiring components that are required in the daily operations. It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements. For example, organization in the white goods categories such as refrigerators can diversify by merging with another organization having business in kitchen appliances.

5. (a) Business environment in which an organization exists can be broadly divided into two parts: the external and the internal. Since the environment is complex and has multiple elements, classification helps to understand it better. External environmental factors are largely beyond the control of individual enterprise and are dynamic in the sense that they keep on changing. These are technological, physical, political and socio-cultural. Internal environment is the environment that has a direct impact on the business and is within the control of the businesses. These are internal management, machinery, methods of production, etc.

(b) Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities a firm could pursue, and the stigma of failure. The company management, government, banks and financial institutions, trade unions, suppliers, creditors, and other agencies are extremely reluctant to be part of such a decision, or ask, for liquidation.

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

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

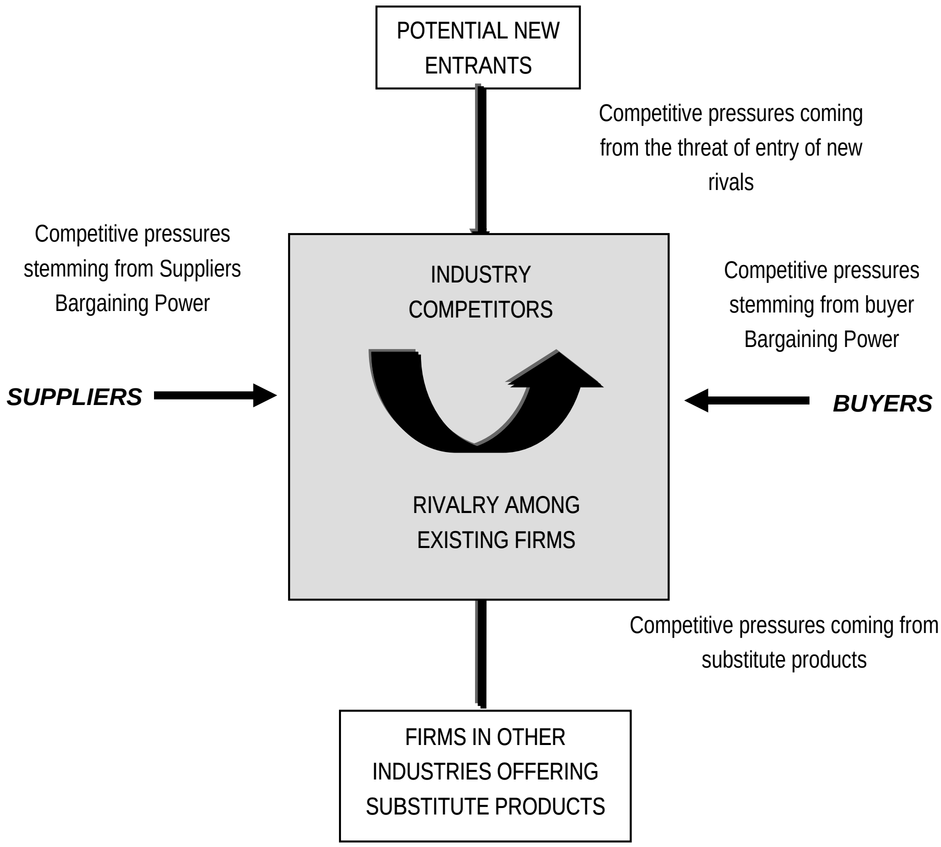
(d) Network structure is a newer and somewhat more radical organizational design. The network structure could be termed a "non-structure" as it virtually eliminates in-house business functions and outsource many of them. An organisation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself.

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

1. Threat of new entrants: New entrants are a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressures. The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

2. Bargaining power of customers: This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.

3. Bargaining power of suppliers: Quite often suppliers, too, exercise considerable bargaining power. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.
4. Rivalry among current players: The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being changed, advertising, and pressures on costs, product and so on.
5. Threats from substitutes: Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden.



7. Technology is the most dynamic of all the environmental factors. An individual enterprise is concerned with the dynamics of its product and process technology, research and development activities in the industry and elsewhere, innovations in products and processes, technological obsolescence and so on. Changes in technology vitally affect the costs, profitability, plant location decisions, product lines, growth and development.

   The technology and business are highly interrelated and interdependent. Technology is patronized by business. Technology also drives business and makes a total change on how it is carried out.

   Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage. New entrants or existing competitors can always use availability of technological improvements in products or production methods that can be a threat to a business.

   Technological opportunities and threats are not limited to the product or production. Technology permeates whole gambit of business. It can transform how a business acts and functions.

8. The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

   The basic framework of strategic process can be described in a sequence of five stages as follows:

   Stage one - Where are we now? (Beginning): This is the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context.

   Stage two - Where we want to be? (Ends): This is a process of goal setting for the organization after it has finalised its vision and mission.

   Stage three - How might we get there? (Means): Here the organization deals with the various strategic alternatives it has.

   Stage four - Which way is best? (Evaluation): Out of all the alternatives generated in the earlier stage the organization selects the best suitable alternative in line with its SWOT analysis.

   Stage five - How can we ensure arrival? (Control): This is a implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages again.

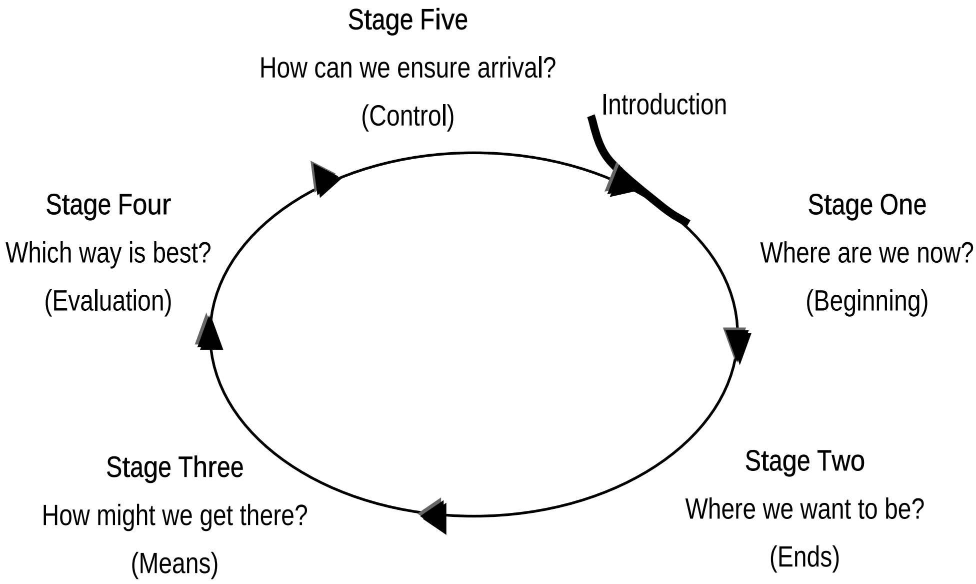


Figure - Framework of strategic management

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

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

10. The model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey & Company) known as “Stop-Light” Strategy Model. This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model. The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop. This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness. The vertical axis indicates market attractiveness and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

- Size of the market.
- Market growth rate.
- Industry profitability.
- Competitive intensity.
- Availability of Technology.
- Pricing trends.
- Overall risk of returns in the industry.
- Opportunity for differentiation of products and services.
- Demand variability.
- Segmentation.
- Distribution structure (e.g. retail, direct, wholesale) etc.

Business strength is measured by considering the typical drivers like:

- Market share.
- Market share growth rate.
- Profit margin.
- Distribution efficiency.
- Brand image.
- Ability to compete on price and quality.
- Customer loyalty.
- Production capacity.
- Technological capability.
- Relative cost position.
- Management caliber, etc.

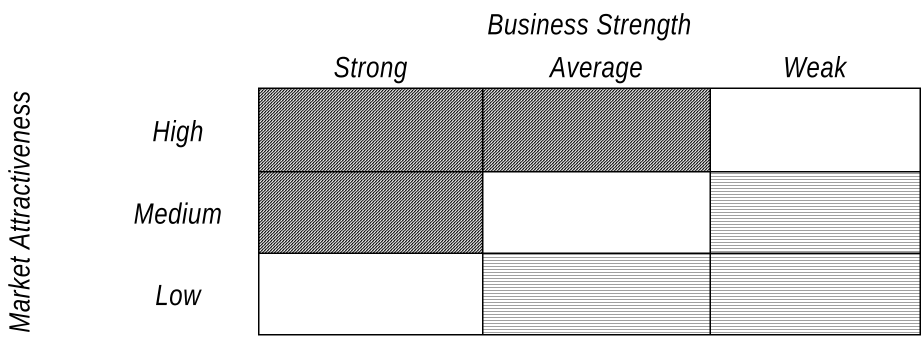
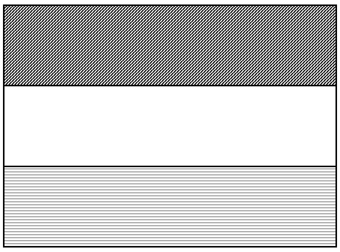


Figure : The GE Portfolio Matrix

Zone		Strategic Signals
Green		Invest/Expand
Yellow		Select/Earn
Red		Harvest/Divest

If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices. If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

11. Industry and competitive analysis can be done using a set of concepts and techniques to get a clear understanding of key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry's profit outlook. The factors that can be analysed are:

Dominant economic features of the industry

Industries differ significantly in their basic character and structure. Industry and competitive analysis begins with an overview of the industry's dominant economic features. The factors to consider in profiling an industry's economic features are market size, scope of competitive rivalry (local, regional, national, international, or global), market growth rate and position in the business life, number of rivals and their relative sizes, number of buyers and their relative sizes and so on.

Nature and strength of competition

An important component of industry and competitive analysis is to identify what the main sources of competitive pressure are and how strong each competitive force is. This analytical step is essential because managers cannot devise a successful strategy without in-depth understanding of the industry's competitive character. Even though competitive pressures in various industries are never precisely the same, the competitive process works in a similar fashion to use a common analytical framework in gauging the nature and intensity of competitive forces.

Triggers of change

An industry's economic features and competitive structure say a lot about its fundamental character but little about the ways in which its environment may be changing. All industries are characterized by trends and new developments that gradually produce changes important enough to require a strategic response.

Identifying the companies that are in the strongest/weakest positions

The next step in examining the industry's competitive structure is to study the market positions of rival companies. One technique for revealing the competitive positions of industry participants is strategic group mapping, which is useful analytical tool for comparing the market positions of each firm separately or for grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in depth.

Likely strategic moves of rivals

Unless a company pays attention to what competitors are doing, it ends up flying blind into competitive battle. A company can't expect to outmanoeuvre its rivals without monitoring their actions, understanding their strategies, and anticipating what moves they are likely to make next. Competitive intelligence about the strategies rivals are deploying, their latest moves, their resource strengths and weaknesses, and the plans they have announced is essential to anticipating the actions they are likely to take next and what bearing their moves might have on a company's own best strategic moves.

Key factors for competitive success

Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close attention to them.

Prospects and financial attractiveness of industry

The final step of industry and competitive analysis is to use the results of analysis of previous six issues to draw conclusions about the relative attractiveness or unattractiveness of the industry, both near-term and long-term. Strategists are obligated to assess the industry outlook carefully, deciding whether industry and competitive conditions present an attractive business opportunity for the company or whether the company's growth and profit prospects are gloomy.

12. Strategies provide an integral framework for management and negotiate their way through a complex and turbulent external environment. Strategy seeks to relate the goals of the organisation to the means of achieving them.

Strategy may be defined as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness.

The Generic Strategies

According to Glueck and Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

(i) **Stability strategies:** One of the important goals of a business enterprise is stability to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

(ii) **Expansion Strategy:** Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. Expansion includes diversifying, acquiring and merging businesses.

(iii) **Retrenchment Strategy:** A business organisation can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

(iv) **Combination Strategies:** Stability, expansion or retrenchment strategies are not mutually exclusive. It is possible to adopt a mix to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

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

Sometimes the strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Information gathering and additional analysis will not be able to reduce the uncertainty. In that case, scenario analysis can be employed. Scenario analysis basically accepts the uncertainty as given and uses it to drive a description of two or more future scenarios. Strategies are then developed for each. One outcome could be a decision to create organizational and strategic flexibility so that as the business context changes the strategy will adapt.

14. There are at least three major R&D approaches for implementing strategies. The first strategy is to be the first firm to market new technological products. This is a glamorous and exciting strategy but also a dangerous one. Firms such as 3M and General Electric have been successful with this approach, but many other pioneering firms have fallen, with rival firms seizing the initiative.

    A second R&D approach is to be an innovative imitator of successful products, thus minimizing the risks and costs of start up. This approach entails allowing a pioneer firm to develop the first version of the new product and to demonstrate that a market exists. Then, laggard firms develop a similar product. This strategy requires excellent R&D personnel and an excellent marketing department.

    A third R&D strategy is to be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced. As a new product accepted by customers, price becomes increasingly important in the buying decision. Also, mass marketing replaces personal selling as the dominant selling strategy. This R&D strategy requires substantial investment in plant and equipment, but fewer expenditures in R&D than the two approaches described earlier.

15. It is true that evaluating the worth of a business is central to strategy implementation. There are circumstances where it is important to evaluate the actual worth of the business. These circumstances can be wide and varied. At a higher level they may include acquisition, mergers or diversification. They may also include other situations such as fixing of share price in an issue. Acquisition, merger, retrenchment may require establishing the financial worth or cash value of a business to successfully implement such strategies.

    Various methods for determining a business's worth can be grouped into three main approaches.

    (i) Net worth or stockholders' equity: Net worth is the total assets minus total outside liabilities of an individual or a company.

    (ii) Future benefits to owners through net profits: These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

    (iii) Market-determined business worth: This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

16. Management of organization's value chain or linkages provide 'leverage' and levels of performance which are difficult to match. The ability to co-ordinate the activities of specialist teams or departments may create competitive advantage through improving value for money in the product or service. Specialization of roles and responsibilities is common in most organizations and is one way in which high levels of competence in separate activities is achieved. However, it often results in a set of activities which are incompatible – different departments pulling in different directions - adding overall cost and/or diminishing value in the product or service.

    This management of internal linkages in the value chain could create competitive advantage in a number of ways:

    - There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, it will probably add to the overall cost of operations. An assessment needs to be made of whether the value added to the customer by this faster response through holding stocks is greater than the added cost.
    - It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So high levels of competence in separate activities are not enough if, as here, the competences are incompatible: that is, they are not related to the same view of what value for money means to the customer.
    - The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provides the basis on which the company outperforms competition. Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience.

- Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively.

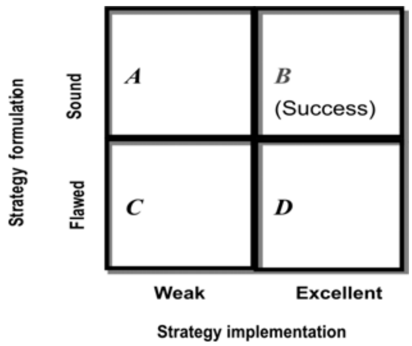
  In addition to the management of internal linkage, competitive advantage may also be gained by the ability to complement/co-ordinate the organization's own activities with those of suppliers, channels or customers. Again, this could occur in a number of different ways:

- Vertical integration attempts to improve performance through ownership of more parts of the value system, making more linkages internal to the organization. However, the practical difficulties and costs of co-ordinating a wider range of internal activities can outweigh the theoretical benefits.

- Within manufacturing industry the competence in closely specifying requirements and controlling the performance of suppliers (sometimes linked to quality checking and/or penalties for poor performance) can be critical to both quality enhancement and cost reduction.

17. 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 was made with some thought being given to feasibility and acceptability.

    It is crucial to realize the difference between strategy formulation and strategy implementation because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. There is no such thing as successful strategic design. This sounds obvious, but in practice the distinction is not always made. The matrix in the figure below represents various combinations of strategy formulation and implementation:



18. TQM or Total Quality Management is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organisation and the supply chain is responsible for preventing rather than detecting defects.

    TQM 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.

    Principles guiding TQM

    Implementing TQM requires organization wide support. There are several principles that guide success of TQM. Various principles that guide the total quality management philosophy are as follows:

    - A sustained management commitment to quality
    - Focusing on the customer
    - Preventing rather than detecting defects
    - Universal quality responsibility
    - Quality measurement
    - Continuous improvement and learning
    - Root cause corrective action
    - Employee involvement and empowerment
    - The synergy of teams
    - Thinking statistically
    - Inventory reduction
    - Value improvement
    - Supplier teaming
    - Training

19. The impact of the Internet and the rapidly emerging e-commerce environment is substantial and widespread. The advent of the Internet and online networks is changing everything. Growing use of the Internet by businesses and consumers reshapes the economic landscape and alters traditional industry boundaries. Characteristics of E-commerce environment changing competitive scenario are as under:

    (a) The Internet makes it feasible for companies everywhere to compete in global markets. This is true especially for companies whose products are of good quality and can be shipped economically.

(b) There are new e-Commerce strategic initiatives of existing rivals and new entrants in form of e-commerce rivals. The innovative use of the Internet adds a valuable weapon to the competitive arsenal of rival sellers, giving them yet another way to jockey for market position and manoeuvre for competitive advantage.

(c) Entry barriers into the e-commerce world are relatively low. Relatively low entry barriers explain why there are already hundreds of thousands of newly formed e-commerce firms, with perhaps millions more to spring up around the world in years to come. In many markets and industries, entry barriers are low enough to make additional entry both credible and likely.

(d) Increased bargaining power of customers to compare the products, prices and other terms and conditions of rival vendors. Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors.

(e) Possibility for business organizations to locate the best suppliers across the world to gain cost advantage. The Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and, further, to collaborate closely with them to achieve efficiency gains and cost savings. Organisations can extend their geographic search for suppliers and can collaborate electronically with chosen suppliers to systemise ordering and shipping of parts and components, improve deliveries and communicate speedily and efficiently.

(f) Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions. There has been wide acceptance of new technologies such as tablets and smart phones. These devices have improved the availability of the internet creating new avenues for the business. Such changes are often bringing in new opportunities and challenges.

(g) Faster diffusion of new technology and new idea across the world. Organisations in emerging countries and elsewhere can use the internet to monitor the latest technological developments and to stay abreast of what is transpiring in the developed markets.

(h) The e-commerce environment demands that companies move swiftly. In the exploding e-commerce world, speed is a condition of survival. New developments occur on one front and then on another occur regularly.

(i) E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains. Using the internet to link the orders of customers with the suppliers of components enables just-in-time delivery to manufacturers, slicing inventory costs and allowing production to match demand.

(j) The Internet can be an economical means of delivering customer service. Organisations are discovering ways to deliver service in a centralised manner –

online or through telephone. Thus curtailing the need to keep company personnel at different locations or at the facilities of major customers.

(k) The capital for funding potentially profitable e-commerce businesses is readily available. In the Internet age, e-commerce businesses have found it relatively easy to raise capital. Venture capitalists are quite willing to fund start-up enterprises provided they have a promising technology or idea, an attractive business model, and a well thoughtout strategic plan.

(l) The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how. While some e-commerce companies have their competitive advantage lodged in patented technology or unique physical assets or brand-name awareness, many are pursuing competitive advantage based on the expertise and intellectual capital of their personnel and on their organizational competencies and capabilities.

SECTION – B: STRATEGIC MANAGEMENT

QUESTIONS

Correct/Incorrect with reasoning

1. State with reasons which of the following statements are correct/incorrect:
   - (a) Diversity in environment makes it difficult to understand.
   - (b) An organization with intense competition is unlucky.
   - (c) The technology and business are highly interrelated and interdependent.
   - (d) A sound strategy does not leave any scope for miscalculations.
   - (e) The strategic management process ends with implementation.
   - (f) Strategy formulation heavily relies on intuition and hunch.
   - (g) One or two key success factors may outrank others.
   - (h) Strategic planning always flows from top to bottom.
   - (i) Stability strategies are do-nothing approach to manage.
   - (j) Cost-plus pricing ensures profits in competition.
   - (k) Network structure creates virtual organisations.
   - (l) Unfreezing facilitates change.

Differences between the two concepts

2. Distinguish between the following:
   - (a) Micro environment and Macro environment.
   - (b) Forward integration and backward integration
   - (c) Inbound logistics and outbound logistics
   - (d) Concentric diversification and conglomerate diversification.

Short notes

3. Write short notes on the following:
   - (a) Globalisation
   - (b) strategic vision
   - (c) Transformational leadership
   - (d) Kieretsus
   - (e) Hourglass Structure

Brief answers

4. Briefly answer the following questions:
   (a) What is a mission statement?
   (b) How production strategy implements, supports and drives higher strategies?
   (c) What do you understand by the term star in the context of BCG matrix?
   (d) What are the major dimensions of strategic decisions?
   (e) Benchmarking process helps to achieve improvement in diverse range of management functions. Discuss.

Descriptive Answers

Chapter 1-Business Environment

5. What is Environment? Briefly explain various macro environmental factors in Indian context.
6. What do you understand by the term business? Are business done for profit alone. Explain various objectives of business.

Chapter 2-Business Policy and Strategic Management

7. What do you understand by the term corporate strategy? Explain the concept with its characteristics. How would you argue that 'corporate strategy 'ensures the correct alignment of the firm with its environment'?
8. What do you understand by 'Strategy'? Explain the four generic strategies as discussed by Glueck and Jauch.

Chapter 3-Strategic Analysis

9. What is TOWS Matrix. How is it improvement over the SWOT Analysis? Describe the construction of TOWS Matrix.
10. Explain GE model. How is it useful in making strategic choices?

Chapter 4-Strategic Planning

11. Discuss how mergers and acquisitions are used for business growth. What are the various types of mergers?
12. What is diversification? Distinguish between vertically integrated diversification and horizontally integrated diversification.

Chapter 5-Formulation of Functional Strategy

13. What are functional strategies? How important are they for the business?
14. Explain the requirements for the successful implementation of supply chain management system?

Chapter 6-Strategic Implementation and Control

15. What is strategic change? How do you initiate strategic change in an organisation? Explain the change process proposed by Kurt Lewin.
16. What are the leadership roles played by a strategic leader? Distinguish between a transformational leader and a traditional leader.

Chapter 7-Reaching Strategic Edge

17 How internet is affecting the business? Explain the strategy-shaping characteristics of the E-commerce environment.

18. How six sigma can be implemented for *existing and new products.*

SUGGESTED ANSWERS / HINTS

1. (a) Correct: The environment encapsulates many different influences; the difficulty is in making sense of this diversity in a way which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be of much use because no overall picture emerges of really important influences on the organization.

(b) Incorrect: Although competition makes organizational working difficult, intense competition is neither a coincidence nor bad luck. All organizations have competition. Multinationals and large organizations clash directly on every level of product and service. Mid-sized and small businesses also chase same customers and find that prices and product quality are bounded by the moves of their competitors. The benefits of competition are also enjoyed by the society and the markets in which organisations operate.

(c) Correct: The fruits of technological research and development are available to society through business only and this also improves the quality of life of the society. Hence, technology is patronized by business. Technology also drives business and makes a total change on how it is carried out.

(d) Incorrect: In a sound strategy, allowances are made for possible miscalculations and unanticipated events. Strategy is no substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations.

(e) Incorrect: Strategy formulation, implementation, and evaluation activities are performed on a continual basis, not just at the end of the year or semi-annually. The strategic management process is dynamic and continuous. It never really ends. Any significant extraneous factor can trigger a change in the process.

(f) **Incorrect:** Strategy formulation is not a task that managers can get by with intuition, opinions, good instincts, and creative thinking. Judgments about what strategies to pursue flow directly from analysis of an organisational external environment and internal situation. It is a pragmatic approach in which strategies are carefully chosen from various alternatives after thorough analysis of micro and macro environment, competition, capabilities, resources, internal strengths, weaknesses and market position.

(g) **Correct:** Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change. Only rarely does an industry have more than three or four key success factors at any one time. And even among these three or four, one or two usually outrank the others in importance. Managers, therefore, have to resist the temptation to include factors that have only minor importance.

(h) **Incorrect:** Although strategic planning is a top level management function, the flow of planning can be from corporate to divisional level or vice-versa. There are two approaches for strategic planning - top down or bottom up. Top down strategic planning describes a centralized approach to strategy formulation in which the corporate centre determines mission, strategic intent, objectives and strategies for the organization as a whole and for all parts. Unit managers are seen as implementers of pre-specified corporate strategies. Bottom up strategic planning is the characteristic of autonomous or semi-autonomous divisions or subsidiary companies in which the corporate centre does not conceptualize its strategic role as being directly responsible. It may prefer to act as a catalyst and facilitator.

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

(j) **Incorrect:** Theoretically, organizations may adopt cost plus pricing wherein a margin is added to the cost of the product to determine its price. However, in the competitive environment such an approach may not be feasible. More and more companies of today have to accept the market price with minor deviations and work towards their costs. They reduce their cost in order to maintain their profitability.

(k) **Correct:** In a network structure many activities are outsourced. A corporation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time.

(l) **Correct:** Unfreezing makes the individuals or organizations aware of the necessity for change and prepares them for such a change. According to Kurt Lewin 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.

2. (a) The business environment consists of both the macro environment and the micro environment. Following are the differences between the two:

1. The micro environment refers to the forces that are very close to the company and affect its ability to do routine functions. Macro environment refers to all forces that are part of the larger periphery and distantly affect organization and micro environment.

2. Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors. Whereas macro environment includes demography, economy, natural forces, technology, politics, legal and socio-cultural.

3. The elements of micro environment are specific to the said business and affects it's working on short term basis. The elements of macro environment are general environment and affect the working of all the firms in an industry.

(b) Forward and backward integration forms part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. While diversifying firms opt to engage in businesses that are linked forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. On the other hand forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organisations enter into businesses of distribution channels.

(c) Inbound logistics are the activities concerned with receiving, storing and distributing the inputs to the product/service. It includes all activities such as materials handling, stock control, transport etc.

Outbound logistics relate to collection, storage and distribution of the product to customers. It includes all activities such as storage/warehousing of finished goods, order processing, scheduling deliveries, operation of delivery vehicles, etc.

(d) Concentric diversification occurs when a firm adds related products or markets. On the other hand conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business.

In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/product is disjointed from the existing businesses/products.

The most common reasons for pursuing a concentric diversification are that opportunities in a firm’s existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

3. (a) In simple economic terms, globalization refers to the process of integration of the world into one huge market. At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) it also means ability to compete in domestic markets with foreign competitors.

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

(c) Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a ‘dream’ or ‘vision’ of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

(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) In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers with constricted middle layer. The structure has a short and narrow middle-management level. Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities. Contrary to traditional middle level managers who are often specialist, the managers in the hourglass structure are generalists and perform wide variety of tasks. They would be handling cross-functional issues emanating such as those from marketing, finance or production.

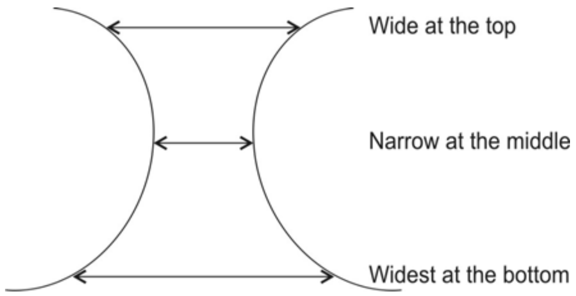


Figure: Hourglass Organisation Structure

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management the promotion opportunities for the lower levels diminish significantly. Continuity at same level may bring monotony and lack of interest and it becomes difficult to keep the motivation levels high. Organisations try to overcome these problems by assigning challenging tasks, transferring laterally and having a system of proper rewards for performance.

4. (a) Mission statement is an answer to the question “Who we are and what we do” and hence has to focus on the organisation’s present capabilities, focus activities and business makeup. An organisation’s mission states what customers it serves, what need it satisfies, and what type of product it offers. It is an expression of the growth ambition of the organisation.

(b) For effective implementation of higher level strategies, strategists need to provide direction to functional managers, including production, regarding the plans and policies to be adopted. Production strategy provides a path for transmitting corporate and business level strategy to the production systems and makes it operational. It may relate to production planning, operational system, control and research & development.

(c) Star in BCG Matrix: BCG growth-share matrix is a simple 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. The matrix is based on combinations of relative market share of the products or SBUs and their market growth rate.

Stars, a position in the matrix, are characterised by high market share and high growth rate. They are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. Business organisations that enjoy star positions have best opportunities for expansion and growth.

(d) The major dimensions of strategic decisions are given below:

1. *Strategic issues require top-management decisions*: Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved and hence required to be considered by the top management.
2. *Strategic issues involve the allocation of large amounts of company resources*: They may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them.
3. *Strategic issues are likely to have a significant impact on the long term prosperity of the firm*: Generally the results of strategic implementation are seen on a long term basis and not immediately.
4. *Strategic issues are future oriented*: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
5. *Strategic issues usually have major multifunctional or multi-business consequences*: As they involve organization in totality they affect different sections of the organization with varying degree.
6. *Strategic issues necessitate consideration of factors in the firm's external environment*: Strategic focus in organization involves orienting its internal environment to the changes of external environment.

(e) Benchmarking is a process of finding the best practices within and outside the industry to which an organisation belongs. Knowledge of the best practices helps in setting standards and finding ways to match or even surpass own performances with the best performances.

Benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking process to achieve improvement in diverse range of management function such as mentioned below:

1. maintenance operations,
2. assessment of total manufacturing costs,
3. product development,
4. product distribution,
5. customer services,
6. plant utilisation levels; and
7. human resource management.

5. Environment is sum of several external and internal forces that affect the functioning of business. Businesses function as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are exchanged with the external client groups, say customers. The extent to which the business thrives depends on the manner in which it interacts with its environment. 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. Important elements of macro environment are:

   1. Demographic environment.
   2. Economic environment.
   3. Political-Legal Environment.
   4. Socio-Cultural environment.
   5. Technological environment.
   6. Global environment.

   Students may briefly explain the above giving Indian examples. In demographic they may highlight that India constitutes about 16% of world population. Indian population is fairly young. There is great diversity. Labour is cheap and so on. The economic problems being faced presently and about 5% growth may be covered in economic environment. In political-legal students may touch upon new Companies Act, new Government, etc. The diversity in socio-cultural including dialects, differing traditions etc. can be mentioned in socio-cultural environment. India's promptness in accepting new technology, flow of business across the border including flow of knowledge and business processes may be covered in technological environment. The global environment may include encouragement to foreign investors and exports. It may also cover our dependence on crude and how its prices are affecting India. A lot of changes are occurring within India and across the globe affecting the business. Students should list out different elements of macro environment and discuss the contemporary developments in each of the area. They may develop their own answers to cover different elements of environment.

6. The term business is wide and amenable to different usages. A business for our purposes can be any activity consisting of purchase, sale, manufacture, processing, and/or marketing of products and/or services. It is said that a business exists for profits. Profit, as a surplus of business, accrues to the owners. It is their share, just as wages are the share of workers. People invest in business for getting return. For business enterprises, profit is often regarded as the overall measure of performance. Business efficiency is often expressed in terms of percentage of profit to sales volume, to capital employed, to market value of corporate shares and so on. Outside investors also equate profit with the degree of business efficiency and managerial competence and commit their funds in light of such equation and other related assessments.

   Peter F Drucker has drawn two important conclusions about what is a business that are useful for an understanding of the term business. The first thing about a business is that it is created and managed by people. There will be a group of people who will take decisions that will determine whether an organization is going to prosper or decline, whether it will survive or will eventually perish. This is true of every business. The second conclusion drawn is that the business cannot be explained in terms of profit.

   The economic criterion of maximising profits for a firm has little relevance in the present times. Profit maximization, in simple terms is selling at a higher price than the cost. Profit maximization has been qualified with the long-term perspective and has been modified to include development of wealth, to include several non-financial factors such as goodwill, societal factors, relations and so on.

   A business has some purpose. A valid purpose of business is to create customers. It is for the businesses to create a customer or market. It is the customer who determines what a business is. The customer is the foundation of business and keeps it in existence. Organisations seek to balance the objectives in an appropriate manner. Some of the objectives of business are:

   1. Survival
   2. Stability
   3. Growth
   4. Efficiency
   5. Profitability

7. 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.

Corporate strategy in the first place ensures the growth of the firm and its correct alignment with the environment. Corporate strategies are concerned with the broad and long-term questions of what businesses the organization is in or wants to be in, and what it wants to do with those businesses. They set the overall direction the organization will follow. It serves as the design for filling the strategic planning gap. It also helps to build the relevant competitive advantages. A right fit between the firm and its external environment is the primary contribution of corporate strategy. Basically the purpose of corporate strategy is to harness the opportunities available in the environment and countering the threats embedded therein. With the help of corporate strategy, organizations match their unique capabilities with the external environment so as to achieve its vision and mission.

8. Strategies provide an integral framework for management and negotiate their way through a complex and turbulent external environment. Strategy seeks to relate the goals of the organisation to the means of achieving them.

   Strategy may be defined as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness.

   The Generic Strategies

   According to Glueck and Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

   (i) Stability strategies: One of the important goals of a business enterprise is stability to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

   (ii) Expansion Strategy: Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. Expansion includes diversifying, acquiring and merging businesses.

   (iii) Retrenchment Strategy: A business organisation can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

   (iv) Combination Strategies: Stability, expansion or retrenchment strategies are not mutually exclusive. It is possible to adopt a mix to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

9. Heinz Weihrich has developed a matrix called TOWS matrix by comparing strengths and weaknesses of organization with that of market opportunities and threats, a variant of SWOT. It has been criticized that after conducting the SWOT Analysis managers frequently fail to come to terms with the strategic choices that the outcomes demand. In

order to overcome this, Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats. While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. The matrix is outlined below:

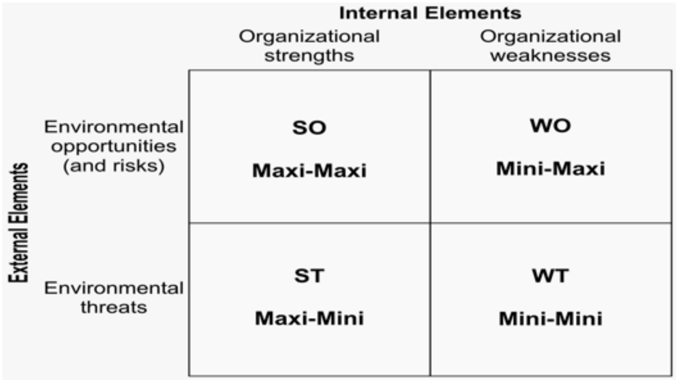


Figure : The TOWS Matrix (Source: Weihrich, H)

The TOWS Matrix is a relatively simple tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

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

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

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

WT (Mini-Mini): WT is a position that any firm will not like to be. An organization facing external threats and internal weaknesses may have to struggle for its survival.

10. The model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey & Company) known as "Stop-Light" Strategy Model. This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model. The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop. This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness. The vertical axis indicates market attractiveness and the horizontal axis shows the business strength in the industry. The market attractiveness is measured by a number of factors like:

    1. Size of the market.

2. Market growth rate.
3. Industry profitability.
4. Competitive intensity.
5. Availability of Technology.
6. Pricing trends.
7. Overall risk of returns in the industry.
8. Opportunity for differentiation of products and services.
9. Demand variability.
10. Segmentation.
11. Distribution structure (e.g. retail, direct, wholesale) etc.

Business strength is measured by considering the typical drivers like:

1. Market share.
2. Market share growth rate.
3. Profit margin.
4. Distribution efficiency.
5. Brand image.
6. Ability to compete on price and quality.
7. Customer loyalty.
8. Production capacity.
9. Technological capability.
10. Relative cost position.
11. Management caliber, etc.

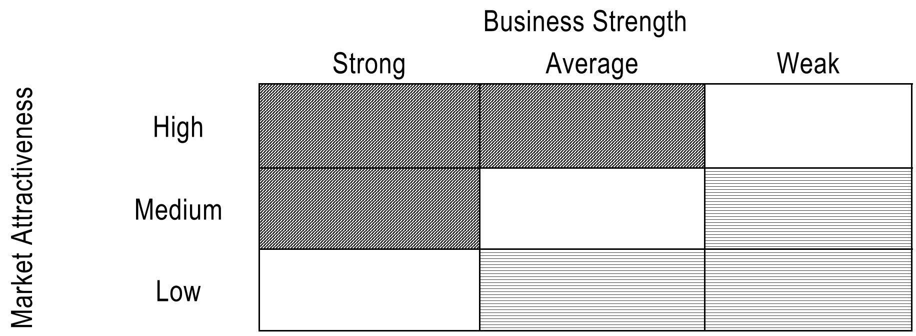
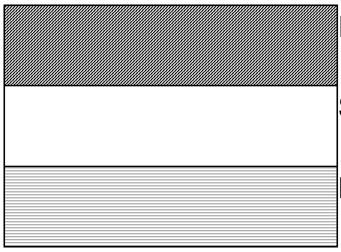


Figure : The GE Portfolio Matrix

Zone	Strategic Signals
Green	Invest/Expand
Yellow	Select/Earn
Red	Harvest/Divest



If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices. If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

11. Many organizations in order to achieve quick growth, expand or diversify use strategies such as mergers and acquisitions. This also helps in deploying surplus funds.

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.

Some organizations prefer to grow through mergers. 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.

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 recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization takes over a weaker entity.

Types of Mergers

1. Horizontal merger: Horizontal mergers are combinations of firms engaged in the same industry. It is a merger with a direct competitor. The principal objective behind this type of mergers is to achieve economies of scale in the production process by shedding duplication of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition

and so on. For example, formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.

2. **Vertical merger:** It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms. If an organization takes over its supplier/producers of raw material, then it leads to backward integration. On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels. Vertical merger results in operating and financial economies. Vertical mergers help to create an advantageous position by restricting the supply of inputs or by providing them at a higher cost to other players.

3. **Co-generic merger:** In co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger include the extension of the product line or acquiring components that are required in the daily operations. It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements. For example, an organization manufacturing refrigerators can diversify by merging with another organization having business in kitchen appliances.

4. **Conglomerate merger:** Conglomerate mergers are the combination of organizations that are unrelated to each other. There are no linkages with respect to customer groups, customer functions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these factors.

12. 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. This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically the business is moving into markets in which it has little or no experience. 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.

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

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

13. Once higher level corporate and business strategies are developed, management need to formulate and implement strategies for each functional area. For effective implementation, strategists have to provide direction to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. Strategy of one functional area can not be looked at in isolation, because it is the extent to which all the functional tasks are interwoven that determines the effectiveness of the major strategy.

    Functional area strategy such as marketing, financial, production and Human Resource are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then for each of these sub functional areas, contents of functional strategies, important factors, and their importance in the process of strategy implementation is identified.

    In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the higher level strategies and guidelines therein that are set at higher levels of an organisation. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

    Major strategies need to be translated to lower levels to give holistic strategic direction to an organisation. Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. The reasons why functional strategies are really important and needed for business can be enumerated as follows:

    The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.

    1. Functional strategies facilitate flow of strategic decisions to the different parts of an organisation.
    2. They act as basis for controlling activities in the different functional areas of business.
    3. The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.

4. Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
5. Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

14. Successful implementation of supply management systems require a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

    Implementing and successfully running supply chain management system will involve:

    1. *Product development:* Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all. Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.
    2. *Procurement:* Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.
    3. *Manufacturing:* Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle.
    4. *Physical distribution:* Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus supply chain management links a marketing channel with customers.
    5. *Outsourcing:* Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.
    6. *Customer services:* Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn help in producing positive feelings in the organization and the customers.

7. *Performance measurement:* There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

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

    (i) Recognize the need for change: The first step is to diagnose which facets of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities may it be through SWOT analysis and then determine where the lacuna lies and scope for change exists.

    (ii) Create a shared vision to manage change: Objectives and vision of both individuals and organization should coincide. There should be no conflict between them. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance through proper communication. Strategy implementers have to convince all those concerned. The actions taken have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.

    (iii) Institutionalise the change: This is basically an action stage which requires implementation of 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 thinking or doing things. Capacity for self-renewal should be a fundamental anchor of the new culture of the firm. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

    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.

16. A strategy manager has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader. Sometimes it is useful to be authoritarian; sometimes it is best to be a perceptive listener and a compromising decision maker; sometimes a strongly participative, collegial approach works best; and sometimes being a coach and adviser is the proper role. Many occasions call for a highly visible role and extensive time commitments, while others entail a brief ceremonial performance with the details delegated to subordinates.

For the most part, major change efforts have to be top-down and vision-driven. 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:

1. Staying on top of what is happening, closely monitoring progress, ferreting out issues, and learning what obstacles lie in the path of good execution.
2. Promoting a culture and esprit de corps that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
3. 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.
4. Exercising ethics leadership and insisting that the company conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

Strategic leadership is the ability of influencing others to voluntarily make decisions that enhance prospects for the organisation's long-term success while maintaining short-term financial stability. Two basic approaches to leadership can be transformational leadership style and transactional leadership style. The difference between transformational and traditional leadership style can be given as follows:

1. Traditional leadership borrowed its concept from formal Top-down type of leadership such as in the military. The style is based on the belief that power is bestowed on the leader, in keeping with the traditions of the past. This type of leadership places managers at the top and workers at the bottom of rung of power.

   In transformational leadership, leader motivates and empowers employees to achieve company's objectives by appealing to higher ideas and values. They use charisma and enthusiasm to inspire people to exert them for the good of the organization.

2. Traditional leadership emphasizes characteristics or behaviours of only one leader within a particular group whereas transformational leadership provides a space to have more than one leader in the same group at the same time. According to the transformational leadership style, a leader at one instance can also be a follower in another instance. Thus there is element of flexibility in the relationships.
3. Traditional leadership is more focused in getting the work done in routine environment. Traditional leaders are effective in achieving the set objectives and goals whereas transformational leaders have behavioural capacity to recognize and react to paradoxes, contradictions and complexities in the environment. Transformational leadership style is more focus on the special skills or talents that the leaders must have to practice to face challenging situations. Transformational leaders work to change the organisational culture by implementing new ideas.

4. In traditional leadership, followers are loyal to the position and what it represents rather than who happens to be holding that position whereas in transformational leadership followers dedicate and admire the quality of the leader not of its position.

17. The impact of the Internet and the rapidly emerging e-commerce environment is profound. The advent of the Internet and online networks changes everything. There can be no doubt that the Internet is a driving force of historical and revolutionary proportions. The coming of ecommerce has changed the character of the market, created new driving forces and key success factors and bred the formation of new strategic groups. The creativeness with which a company incorporates e-commerce practices holds enormous potential for reconfiguring its value chain and affecting its company's competitiveness. Also the Internet economy presents opportunities and threats that demand strategic response and that require managers to craft bold new strategies.

    We need to understand how growing use of the Internet by businesses and consumers reshapes the economic landscape and alters traditional industry boundaries. The following characteristics of the strategy-shaping E-Commerce environment are:

    1. The Internet makes it feasible for companies everywhere to compete in global markets.
    2. Competition in an industry is greatly intensified by the new e-commerce strategic initiatives of existing rivals and by the entry of new, enterprising e-commerce rivals.
    3. Entry barriers into the e-commerce world are relatively low.
    4. Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors.
    5. The Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and, further, to collaborate closely with them to achieve efficiency gains and cost savings.
    6. Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions.
    7. The internet results in much faster diffusion of new technology and new idea across the world.
    8. The e-commerce environment demands that companies move swiftly.
    9. E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains.
    10. The Internet can be an economical means of delivering customer service.
    11. The capital for funding potentially profitable e-commerce businesses is readily available.
    12. The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how.

18. For implementing six sigma, there are two separate key methodologies. They are known as DMAIC and DMADV.

    DMAIC is an acronym for five different steps used in six sigma - Define, Measure, Analyze Improve, and control. DMAIC methodology is directed towards improvement of existing product, process or service.

    1. *Define:* To begin with six sigma experts define the process improvement goals that are consistent with the strategy of the organization and customer demands. They discuss different issues with the senior managers so as to define what needs to done.
    2. *Measure:* The existing processes are measured to facilitate future comparison. Six sigma experts collect process data by mapping and measuring relevant processes.
    3. *Analyze:* Verify cause-and-effect relationship between the factors in the processes. Experts need to identify the relationship between the factors. They have to make a comprehensive analysis to identify hidden or not so obvious factor.
    4. *Improve:* On the basis of the analysis experts make a detailed plan to improve.
    5. *Control:* Initial trial or pilots are run to establish process capability and transition to production. Afterwards continuously measure the process to ensure that variances are identified and corrected before they result in defects.

    DMADV is an acronym for Define, Measure, Analyze, Design, and Verify. DMADV is a strategy for designing new products, processes and services.

    1. *Define:* As in case of DMAIC six sigma experts have to formally define goals of the design activity that are consistent with strategy of the organization and the demands of the customer.
    2. *Measure:* Next identify the factors that are critical to quality (CTQs). Measure factors such as product capabilities and production process capability. Also assess the risks involved.
    3. *Analyze:* Develop and design alternatives. Create high-level design and evaluate to select the best design.
    4. *Design:* Develop details of design and optimise it. Verify designs may require using techniques such as simulations.
    5. *Verify:* Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

    However, in spite of different orientation in two methodologies, conceptually there is overlapping between the DMAIC and DMADV as both are essentially having similar objectives.

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SECTION – B: STRATEGIC MANAGEMENT

QUESTIONS

Correct/Incorrect with reasoning

1. State with reasons which of the following statements are correct/incorrect:
   - (a) Substitute products are latent source of competition.
   - (b) Enterprises pursue multiple objectives rather than a single objective.
   - (c) The management of funds can play a pivotal role in strategy implementation.
   - (d) Not-for-profit organizations are not required to have a strategy.
   - (e) The process of strategy avoids matching potential of the organization with the environment opportunities.
   - (f) There is both opportunity and challenge in 'Change'.
   - (g) Efficiency and effectiveness mean the same in strategic management.
   - (h) Production strategy implements, supports and drives higher strategies.
   - (i) E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains.
   - (j) A company's strategy has always to be proactive in nature.

Differences between the two concepts

2. Distinguish between the following:
   - (a) Operational Control and Management Control.
   - (b) Strategy Formulation and Strategy Implementation.
   - (c) DMAIC and DMADV Methodology of Six Sigma.
   - (d) Top-Down and Bottom-Up Strategic Planning.

Short notes

3. Write short notes on the following:
   - (a) Socio-cultural environment
   - (b) Portfolio analysis
   - (c) Augmented marketing
   - (d) Six sigma
   - (e) Strategic groups

Brief answers

4. Briefly answer the following questions:
   (a) Briefly explain Premise Control.
   (b) Define Total Quality Management.
   (c) Explain the Concept of strategic Intent.
   (d) Define Forward and Backward Linkages.
   (e) Explain briefly the Competitive advantage.

Descriptive Answers

Chapter 1-Business Environment

5. Discuss the Porter's model for systematically diagnosing the significant competitive pressures in a market.
6. Briefly explain macro environmental factors that affect an organization's strategy.

Chapter 2-Business Policy and Strategic Management

7. What is Strategic Management? What benefits accrue by following a strategic approach to managing?
8. What are the major dimensions of strategic decision making?

Chapter 3-Strategic Analysis

9. Explain how TOWS matrix can generate strategic options within external and internal environment.
10. How an organization analyses its business portfolio explain on market growth rate and relative market share.

Chapter 4-Strategic Planning

11. What is turnaround management? What are various stages in its implementation?
12. Discuss strategic alternatives with reference to Michael Porter's strategies.

Chapter 5-Formulation of Functional Strategy

13. What is supply chain management? Is it same as logistics management? Discuss.
14. What do you mean by financial strategy of an organization? How the worth of a business is evaluated?

Chapter 6-Strategic Implementation and Control

15. "The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools." Elucidate the statement in terms of its effect on organization structure.

16. Define corporate culture. Also elucidate the statement "Culture is a strength that can also be a weakness".

Chapter 7-Reaching Strategic Edge

17 What is Benchmarking? What are the areas where benchmarking can help?

18. Define Business Process Re-engineering. Briefly outline the steps therein.

SUGGESTED ANSWERS / HINTS

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

   (b) Correct: Enterprises pursues multiple objectives rather than a single objective. In general, we may identify a set of business objectives pursued by a large cross-section of enterprises. These relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on. Enterprises seek to balance these objectives in some appropriate manner.

   (c) Correct: The management of funds can play a pivotal role in strategy implementation as it aims at the conservation and optimum utilization of funds objectives which are central to any strategic action. Organizations that implement strategies of stability, growth or retrenchment cannot escape the rigours of a proper management of funds. In fact, good management of funds often creates the difference between a strategically successful and unsuccessful company.

   (d) Incorrect: Similar to commercial organizations, 'not-for-profit' organizations must also have a strategy. It is required to give it direction, focus and efficient utilization of resources. In many 'not-for-profit' organizations surpluses are important for their survival and growth.

   (e) Incorrect: In the process of strategic management an organisation continuously scan its relevant environment to identify various opportunities and threats. Organisations keen to grow and expand often look for promising opportunities that match their potential. Such opportunities become a good stepping stone for achieving the goals of the organisation.

(f) **Correct:** It is said that change is inevitable, especially in the context of business environment. Changes in the business environment from time to time throw up new issues before businesses. A right perspective of such new issues is to view them both as challenges and opportunities - challenge because appropriate action is called for and, opportunity because it opens up new potentials for the future plans that would lead to prosperous business.

(g) **Incorrect:** Efficiency pertains to designing and achieving suitable input output ratios of funds, resources, facilities and efforts whereas effectiveness is concerned with the organization's attainment of goals including that of desired competitive position. While efficiency is essentially introspective, effectiveness highlights the links between the organization and its environment. In general terms, to be effective is to do the right things while to be efficient is to do things rightly.

(h) **Correct:** For effective implementation of higher level strategies, strategists need to provide direction to functional managers, including production, regarding the plans and policies to be adopted. Production strategy provides a path for transmitting corporate and business level strategy to the production systems and makes it operational. It may relate to production planning, operational system, control and research & development.

(i) **Correct:** The impact of e-commerce technology on industry and company value chains is profound, paving the way for fundamental changes in the ways business is conducted both internally, and with suppliers and customers. Using the network to link the customers and the suppliers enables just-in-time delivery, reducing inventory costs and allowing production to match demand.

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

2. (a) Differences between Operational Control and Management Control are as under:

   (i) The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.

   (ii) Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand the basic purpose of management control is the achievement of enterprise goals – short range and long range – in an effective and efficient manner.

(b) Strategy formulation and implementation can be distinguished in the following ways:

Strategy Formulation	Strategy Implementation
- It involves the design and choice of appropriate organisational strategies.	- It is the process of putting the various strategies into action of organizations.
- It is positioning forces before the action.	- It is managing forces during the action
- It focuses on effectiveness.	- It focuses on efficiency.
- It is primarily an intellectual process.	- It is primarily an operational process.
- It requires good intuitive and analytical skills.	- It requires special motivation and leadership skills.
- It requires coordination among a few individuals.	- It requires coordination among many individuals.

(c) For implementing six sigma, there are two separate key methodologies for existing and new processes. They are known as DMAIC and DMADV.

DMAIC is an acronym for five different steps used in six sigma - Define, Measure, Analyze Improve, and control. DMAIC methodology is directed towards improvement of existing product, process or service.

- Define: To begin with six sigma experts define the process improvement goals that are consistent with the strategy of the organization and customer demands. They discuss different issues with the senior managers so as to define what needs to done.
- Measure: The existing processes are measured to facilitate future comparison. Six sigma experts collect process data by mapping and measuring relevant processes.
- Analyze: Verify cause-and-effect relationship between the factors in the processes. Experts need to identify the relationship between the factors. They have to make a comprehensive analysis to identify hidden or not so obvious factor.
- Improve: On the basis of the analysis experts make a detailed plan to improve.

- Control: Initial trial or pilots are run to establish process capability and transition to production. Afterwards continuously measure the process to ensure that variances are identified and corrected before they result in defects.

DMADV is an acronym for Define, Measure, Analyze, Design, and Verify. DMADV is a strategy for designing new products, processes and services.

- Define: As in case of DMAIC six sigma experts have to formally define goals of the design activity that are consistent with strategy of the organization and the demands of the customer.
- Measure: Next identify the factors that are critical to quality (CTQs). Measure factors such as product capabilities and production process capability. Also assess the risks involved.
- Analyze: Develop and design alternatives. Create high-level design and evaluate to select the best design.
- Design: Develop details of design and optimise it. Verify designs may require using techniques such as simulations.
- Verify: Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

However, in spite of different orientation in two methodologies, conceptually there is overlapping between the DMAIC and DMADV as both are essentially having similar objectives.

(d) Top-Down and Bottom-Up Strategic Planning: Strategic planning determines where an organization is going over the next year or more and the ways for going there. The process is organization-wide, or focused on a major function such as a division or other major function. As such strategic planning is a top level management function. The flow of planning can be from corporate to divisional level or vice-versa. There are two approaches for strategic planning - top down or bottom up.

Top down strategic planning describes a centralized approach to strategy formulation in which the corporate centre or head office determines mission, strategic intent, objectives and strategies for the organization as a whole and for all parts. Unit managers are seen as implementers of pre-specified corporate strategies.

Bottom up strategic planning is the characteristic of autonomous or semi-autonomous divisions or subsidiary companies in which the corporate centre does not conceptualize its strategic role as being directly responsible for determining the mission, objectives, or strategies of its operational activities. It may prefer to act as a catalyst and facilitator, keeping things reasonably simple and confining itself to perspective and broader strategic intent.

3. (a) Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated. The core beliefs of a particular society tend to be persistent. It is difficult for businesses to change these core values, which becomes a determinant of its functioning.

   (b) Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multi product and multi business firms.

   (c) Augmented marketing refers to deliberate and accelerated efforts to get better marketing returns through additional means. It includes provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

   (d) 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.

   (e) Strategic groups are conceptually defined clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. Strong economic compulsions often constrain these firms from switching one competitive posture to another. Any industry contains only one strategic group when all firms essentially have identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the market place.

4. (a) A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

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

(ii) Industry factors such as competitors, suppliers, substitutes.

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

(b) Total Quality Management: TQM or Total Quality Management is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organisation and the supply chain is responsible for preventing rather than detecting defects.

TQM 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.

(c) Concept of Strategic Intent: A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective. A company's objectives sometimes play an other role – that of signaling unmistakable strategic intent to make quantum gains in competing against key rivals and establish itself as a clear-cut winner in the marketplace, often against long odds. A company's strategic intent can entail becoming the dominant company in the industry, unseating the existing industry leader, delivering the best customer service of any company in the industry (or the world), or turning a new technology into products capable of changing the way people work and live. Ambitious companies almost invariably begin with strategic intents that are out of proportion to their immediate capabilities and market positions. They set aggressive objectives and pursue them relentlessly, sometimes even obsessively.

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

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

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

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

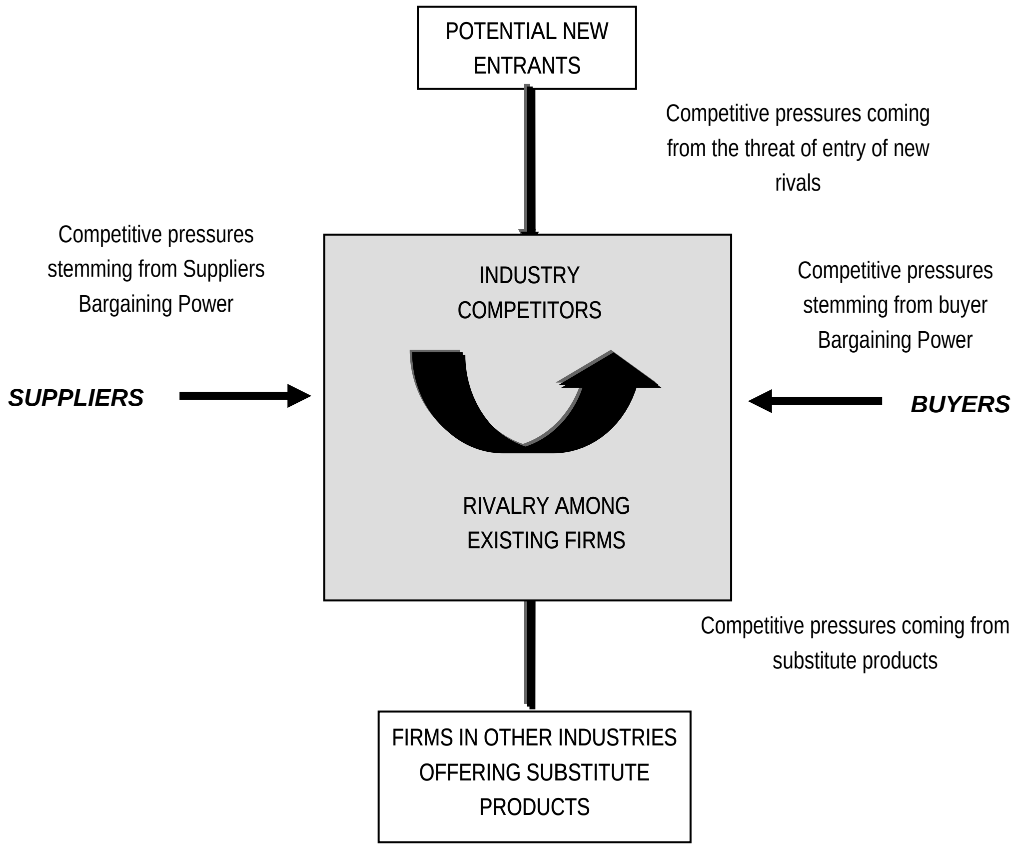
   1. Threat of new entrants: New entrants are a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressures. The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

   2. Bargaining power of customers: This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.

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

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

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



6. 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. Important elements of macro environment are:

- **Demographic Environment:** The term demographics denote characteristics of population in an area, district, country or in world. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, income, education, growth rate affect the business with different magnitude.
- **Economic Environment:** The economic environment refers to the nature and direction of the economy in which a company competes or may compete. The

economic environment includes general economic situation in the region and the nation, conditions in resource markets (money, manpower, raw material and so on) which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.

- Political-Legal Environment: There are three important elements in political-legal environment:
  - Government: Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business.
  - Legal: Business organizations prefer to operate within a sound legal system. Legal environment consists of laws governing business.
  - Political: Political pressure groups influence and limit organizations. Apart from sporadic movements against certain products, service and organizations, politics has deeply seeped into unions.
- Socio-Cultural Environment: Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated.
- Technological Environment: Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage.
- Global Environment: In simple economic terms, globalization refers to the process of integration of the world into one huge market. At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) it also means ability to compete in domestic markets with foreign competitors.

7. In a highly competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilise all facets of the organisation), and functional plans (plans to carry out daily operations from the different functional disciplines).

   The overall objective of strategic management is two fold:

   (1) To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.

(2) To guide the company successfully through all changes in the environment.

The following are the benefits of strategic approach to managing:

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

8. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are given below:

- *Strategic issues require top-management decisions*: Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved. Hence, problems calling for strategic decisions require to be considered by top management.
- *Strategic issues involve the allocation of large amounts of company resources*: It may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them.
- *Strategic issues are likely to have a significant impact on the long term prosperity of the firm*: Generally the results of strategic implementation are seen on a long term basis and not immediately.
- *Strategic issues are future oriented*: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- *Strategic issues usually have major multifunctional or multi-business consequences:* As they involve organization in totality they affect different sections of the organization with varying degree.

- *Strategic issues necessitate consideration of factors in the firm's external environment:* Strategic focus in organization involves orienting its internal environment to the changes of external environment.

9. Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats. While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand. Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. Thus TOWS matrix has a wider scope when compared to SWOT analysis. TOWS analysis is an action tool whereas SWOT analysis is a planning tool. The matrix is outlined below:

Internal elements / *External Elements*	*Organizational Strengths*	*Organizational Weaknesses*
	Strategic Options	
Environmental opportunities(and risks)	*SO : Maxi – Maxi*	*WO : Mini – Maxi*
Environmental threats	*ST : Maxi – Mini*	*WT : Mini – Mini*

Figure: The TOWS Matrix (Source: Weihrich, H)

The TOWS Matrix is a relatively simple tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

SO(Maxi-Maxi): SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities. Such firms can take lead from their strengths and utilize the resources to take the competitive advantage.

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

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

WT(Mini-Mini): WT is a position that any firm will try to avoid. An organization facing external threats and internal weaknesses may have to struggle for its survival. WT strategy is a strategy which is pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

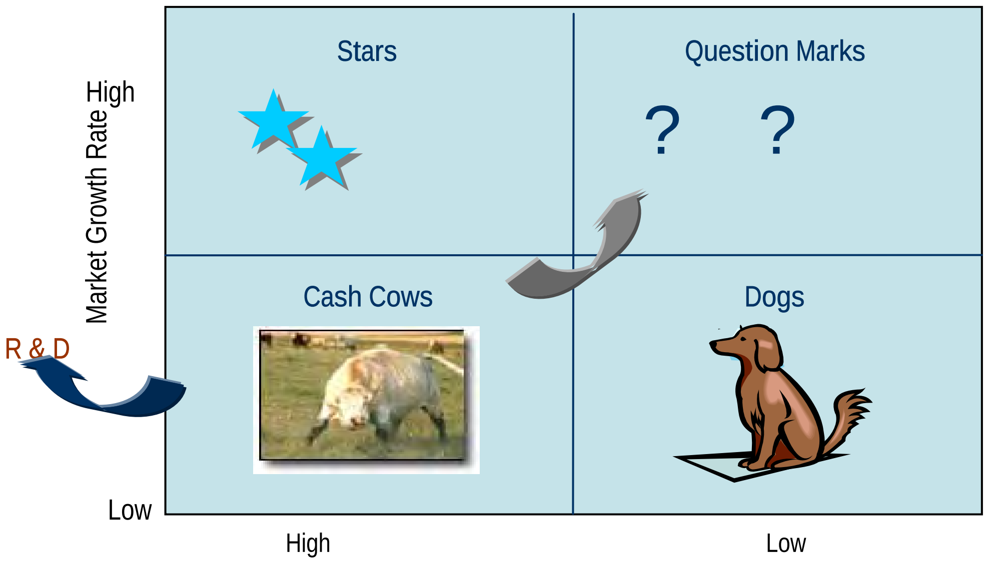
By using TOWS Matrix, one can look intelligently at how one can best take advantage of the opportunities open to him, at the same time that one can minimize the impact of weaknesses and protect oneself against threats. Used after detailed analysis of threats, opportunities, strength and weaknesses, it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

10. The BCG growth-share matrix is the simplest way to portray a corporation'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. 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.

Using the matrix, organisations can identify four different types of products or SBU as follows:

- **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.
- **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.



Relative Market Share

Figure: BCG Growth-Share Matrix

- Question Marks, sometimescalled 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.
- 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.

  Once the organisations have classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

  (i) Build: Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.

  (ii) Hold: Here the objective is to preserve market share.

  (iii) Harvest: Here the objective is to increase short-term cash flow regardless of long-term effect.

  (iv) Divest: Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

  The growth-share matrix has done much to help strategic planning study; however, there are problems and limitations with the method. BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly.

11. Turnaround Management is the formulation and implementation of a strategic plan and a set of actions aimed towards corporate renewal and restructuring, during times of severe distress. Rising competition, business cycles and economic volatility create a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Through turnaround the organization's first objective is to survive and then grow in the market. Once turnaround is successful the organization may turn to focus on growth.

Action plan for turnaround strategy

(i) Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

(ii) Analyze the situation and develop a strategic plan: Before making any major changes, chances of survival may be ascertained. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

(iii) Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and raise enough funds to implement the turnaround strategies.

(iv) Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed. Organizations may even withdraw from certain markets. The 'people mix' is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

(v) Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts to take the organisation on growth path.

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

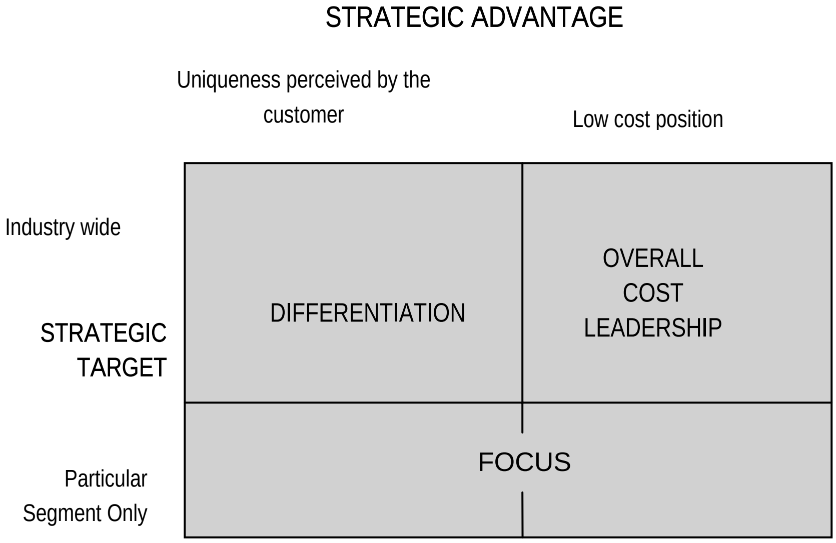


Figure: Michael Porter's Generic Strategy

Cost Leadership Strategies: 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. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, capacity utilization and linkages with suppliers and distributors and so on.

Differentiation Strategies: 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 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. Special features that differentiate one's product can include superior service, spare parts availability, design, product performance, useful life, or ease of use and so on.

Focus Strategies: A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence follow a differentiated strategy.

13. The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners – suppliers, intermediaries, other service providers and customers.

    Supply chain management is defined as the process of planning, implementing, and controlling the supply chain operations. It is a cross-functional approach to managing the movement of raw materials into an organization and the movement of finished goods out of the organization toward the end-consumer who are to be satisfied as efficiently as possible.

    Is logistic management same as supply chain management?

    Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Although these activities also form part of Supply chain management, the latter has different components. Supply chain management includes more aspects apart from the logistics function. It involves working cohesively with the channel partners to streamline the flow of materials. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

14. The financial strategies of an organization are related to several finance/ accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/ usage of funds, and evaluating the worth of a business.

    Various methods for determining a business's worth can be grouped into three main approaches which are as follows:

    (i) Net worth or stockholders' equity: Net worth is the total assets minus total outside liabilities of an individual or a company.

    (ii) Future benefits to owners through net profits: These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

    (iii) Market-determined business worth: This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

15. In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers with constricted middle layer. The structure has a short and narrow middle-management level. Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities. Contrary to traditional middle level managers who are often specialist, the managers in the hourglass structure are generalists and perform wide variety of tasks. They would be handling cross-functional issues emanating such as those from marketing, finance or production.

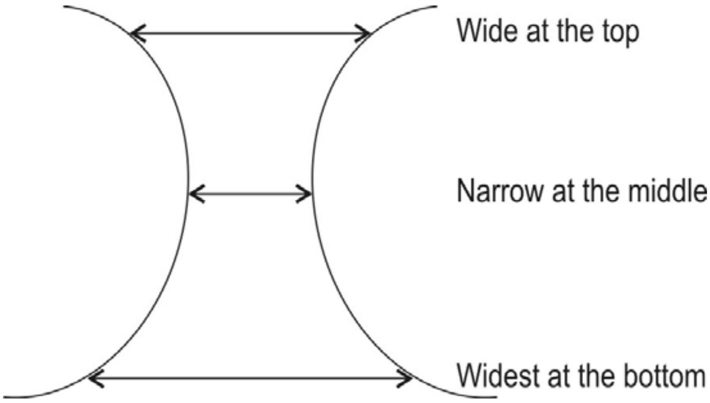


Figure: Hourglass Organisation Structure

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management the promotion opportunities for the lower levels diminish significantly. Continuity at same level may bring monotony and lack of interest and it becomes difficult to keep the motivation levels high. Organisations try to overcome these problems by assigning challenging tasks, transferring laterally and having a system of proper rewards for performance.

16. 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.

17. In simple words, 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. For example, a customer support engineer of a television manufacturer attends a call within forty-eight hours. If the industry norm is that all calls are attended within twenty-four hours, then the twenty-four hours can be a benchmark.

    Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization. Benchmarking can help in almost all aspect of business that are amenable to comparison and are significant to business. Typically organisations can use benchmarking process to achieve improvement in diverse range of management function like:

    - Maintenance operations
    - Assessment of total manufacturing costs
    - Product development
    - Product distribution
    - Customer services
    - Plant utilization levels
    - Human resource management

18. Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that

involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers.

The orientation of redesigning efforts is basically radical. In other words, it is a total deconstruction and rethinking of business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum jump in process performance in terms of time, cost, output, quality, and responsiveness to customers. BPR is a revolutionary redesigning of key business processes.

BPR involves the following steps:

1. Determining objectives and framework: Objectives are the desired end results of the redesign process which the management and organization attempts to achieve. This will provide the required focus, direction, and motivation for the redesign process. It helps in building a comprehensive foundation for the reengineering process.
2. Identify customers and determine their needs*:* The designers have to understand customers – their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.
3. Study the existing process: The existing processes will provide an important base for the redesigners. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.
4. Formulate a redesign process plan: The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering efforts. Customer focused redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.
5. Implement the redesign: It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalise the new process.

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SECTION – B: STRATEGIC MANAGEMENT

Correct/Incorrect with reasoning

1. State with reasons which of the following statements are correct/incorrect:
   - (a) Portfolio analysis involves comparison of various functional areas of business.
   - (b) Strategic management is a bundle of tricks and magic.
   - (c) A strategic group consists of rival firms with similar competitive approaches and positions in the market.
   - (d) SWOT analysis presents a comparative account.
   - (e) Focus strategies are most effective with consumers having similar preferences.
   - (f) TQM is a people-focused management system that aims employees' satisfaction.
   - (g) IT can bring efficiency and effectiveness in the functioning of businesses.
   - (h) A corporate culture is always identical in organizations located in same geographical area.
   - (i) Demarketing is used to eliminate the competitors' market share.
   - (j) Balance scorecard is a combination of Human resource and marketing functions.

Differences between the two concepts

2. Distinguish between the following:
   - (a) Economic environment and Socio-cultural environment.
   - (b) Synchro Marketing and Demarketing.
   - (c) Divestment strategy and Liquidation strategy.
   - (d) Logistic Management and Supply Chain Management.

Short notes

3. Write short notes on the following:
   - (a) Implementation steps in BPR.
   - (b) Reasons necessary for globalization of companies.
   - (c) Objectives of SWOT analysis.
   - (d) Retrenchment Strategy.

Brief answers

4. Briefly answer the following questions:
   - (a) Briefly explain Experience Curve.

(b) Define Competitive Advantage.

(c) Explain Strategic Vision.

(d) Define Network structure.

Descriptive Answers

Chapter 1-Business Environment

5. "A business enterprise is a sub-system of the larger environmental system." Discuss the relationship between the organization and its business environment.

6. Explain briefly different strategic approaches for Globalization by a company.

Chapter 2-Business Policy and Strategic Management

7. Distinguish between the Three Levels of Strategy Formulation.

8. What is Strategic Decision Making? Briefly explain the major dimensions of strategic decisions.

Chapter 3-Strategic Analysis

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

10. How would you argue that strategic analysis is the starting point for strategic thinking?

Chapter 4-Strategic Planning

11. What do you understand by 'Strategy'? Explain the four generic strategies as discussed by Glueck and Jauch.

12. Many organizations in order to achieve quick growth use strategies such as mergers and acquisitions. Explain. Discuss various types of mergers.

Chapter 5-Formulation of Functional Strategy

13. What are the issues that need to be addressed to formulate an effective logistics strategy in a business firm?

14. How Research and Development (R&D) personnel can play an integral part in strategy implementation?

Chapter 6-Strategic Implementation and Control

15. "Successful strategy formulation does not guarantee successful strategy implementation." Discuss.

16. How is 'Strategic Business Unit' beneficial for improving the competitive advantage of a firm?

Chapter 7-Reaching Strategic Edge

17 Explain the role of strategic management in Medical Organizations.

18. How would you explain the managerial significance of Six Sigma in today's business world?

SUGGESTED ANSWERS

1. (a) **Incorrect:** Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in a multiproduct and multi-business firm.

   (b) **Incorrect:** No, Strategic management is not a bundle of tricks and magic. It is much more serious affair. It involves systematic and analytical thinking and action. Although, the success or failure of a strategy is dependent on several extraneous factors, it can not be stated that a strategy is a trick or magic. Formation of strategy requires careful planning and requires strong conceptual, analytical, and visionary skills.

   (c) **Correct:** A strategic group consists of those rival firms that have similar competitive approaches and positions in the market. Organisations in the same strategic group can resemble one another in any of the several ways: they may have comparable product-line breadth, sell in the same price/quality range, emphasize the same distribution channels, use essentially the same product attributes to appeal to similar types of buyers, depend on identical technological approaches, or offer buyers similar services and technical assistance.

   (d) **Correct:** SWOT analysis presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses. This helps in matching external and internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship. The patterns are combinations say, high opportunities and high strengths, high opportunities and low strengths, high threats and high strengths, high threats and low strengths.

   (e) **Incorrect:** Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

   (f) **Incorrect:** TQM or Total Quality Management is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organisation and the supply chain is responsible for preventing rather than detecting defects.

(g) **Correct:** Information technology is playing a significant role in changing the business processes. A reengineered business process, characterized by IT-assisted speed, accuracy, adaptability and integration of data and service points, is focused on meeting the customer needs and expectations quickly and adequately, thereby enhancing his/her satisfaction level. With the help of tools of information technology organizations can modify their processes to make them automatic, simpler, time saving. Thus IT can bring efficiency and effectiveness in the functioning of business.

(h) **Incorrect:** Every company has its own organisational culture. Each has its own business philosophy and principles, its own ways of approaching to the problems and making decisions, its own work climate, work ethics, etc. Therefore, corporate culture need not be identical in all organisations in a geographical area. However, every organisation over a period of time inherits and percolates down its own specific work ethos and approaches.

(i) **Incorrect:** 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 over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

(j) **Incorrect**: Balance scorecard is a combination of strategic and financial objectives. It measure company performance, requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made.

2. (a) The economic environment refers to the nature and direction of the economy in which a company competes or may compete. It includes general economic situation in the region and the nation, conditions in resource markets which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.

Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability. Income distribution pattern determines the marketing possibilities. The important point to consider is to find out the effect of economic prospect and inflation on the operations of the firms. Strategists must scan, monitor, forecast, and assess a number of key economic factors for both domestic and key international markets.

Socio-Cultural Environment influences almost all enterprises in a similar manner. It primarily affects strategic management process within the organization in the areas of mission & objectives setting and decisions related to products & markets.

Socio-cultural environment is a complex combination of factors such as social traditions, values and beliefs, changing lifestyle patterns &materialism, level and standards of literacy and education, awareness & consciousness of rights and work ethics of members of society, the ethical standards and state of society, the extent of social stratification, conflict and cohesiveness, social concerns such as corruption, environmental pollution etc.

(b) **Synchro-marketing:** When the demand for any product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives. For example, products such as movie tickets can be sold at lower price over week days to generate demand.

Demarketing: Marketing strategies to reduce demand temporarily or permanently- the aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

(c) **Divestment Strategy:** Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

Liquidation Strategy: Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities a firm could pursue, and the stigma of failure.

(d) Supply chain management is an extension of logistic management. However, there are differences between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfillment of orders, inventory management and supply/demand planning. Although these activities also form part of supply chain management, the latter is much broader. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management is an integrating function of all the major business activities and business processes within and across organisations. Supply Chain Management is a systems view of the linkages in the chain consisting of different channel partners – suppliers, intermediaries, third-party service providers and customers. Different elements in the chain work together in a collaborative and coordinated manner. Often it is used as a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price.

3. (a) Companies begin business process re-engineering by creating a plan of action based on the gap between the current and proposed processes, technologies and structures. Steps usually followed to implement BPR are as follows:

(i) **Determining objectives and framework:** Objectives are the desired end results of the redesign process which the management and organization attempts to achieve. It helps in building a comprehensive foundation for the reengineering process.

(ii) **Identify customers and determine their needs*:*** The designers have to understand customers – their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.

(iii) **Study the existing process:** The existing processes will provide an important base for the redesigners.

(iv) **Formulate a redesign process plan:** Formulation of redesign plan is the real crux of the reengineering efforts. Customer focused redesign concepts are identified and formulated.

(v) **Implement the redesign:** Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements.

(b) Reasons necessary for Globalization of companies are as follows:

- The rapid shrinking of time and distance across the globe resulting in faster communication, speedier transportation, growing financial flows and rapid technological changes.
- Domestic market is not large enough to absorb whatever is produced. Some European companies have gone global for this reason.
- Justification of foreign investment keeping in view the size of foreign market.
- Securing a reliable and cheaper source of raw-materials. Some companies, by contrast, have often ventured overseas to protect old markets or to seek new ones. For example cheap labour in India lure foreign investors.

- Reducing the high transportation costs by setting up overseas plants that ultimately leads to reducing the higher ratio of the unit cost to the selling price per unit.

(c) In SWOT analysis 'strengths' and 'opportunities' are positive considerations and 'weaknesses' and 'threats' are negative considerations. The basic objectives of conducting SWOT analysis are:

- To exploit the strengths of the company to achieve its objectives.
- To identify the shortcomings in the company's present skills and resources and to take necessary corrective steps so that the overall interest of the organisation is protected.
- To focus on profit making opportunities in the business environment and for identifying threats.
- To highlight areas within the company, which are strong and might be exploited more and weaknesses, where some defensive planning might be required to prevent the company from downfall.

(d) Retrenchment strategy implies substantial reduction in the scope of organization's activity. A business organization can redefine its business by divesting a major product line or market. While retrenching, organizations might set objectives below the past level of objectives. It is essentially a defensive strategy adopted as a reaction to operating problems stemming from either internal mismanagement, unanticipated actions by competitors or hostile and unfavourable changes in the business environmental conditions. With a retrenchment strategy the endeavour of management is to raise the level of enterprise achievements focusing on improvements in the functional performance and cutting down operations with negative cash flows.

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

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

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

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

(d) Network structure is a newer and somewhat more radical organizational design. The network structure could be termed as 'non-structure' as it virtually eliminates in-house business functions and outsource many of them. A corporation organized in this manner is a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.

5. A business does not function in isolation, rather, it acts as a sub-system of its environment consisting of society, economy, laws, competitors and so on. Business draws certain inputs from environment in the form of resources and information and transforms them into outputs. The relationship between the organization and its environment may be discussed in terms of interactions between them that can be broadly outlined as below:

Exchange of information: The organization scans the external environmental variables, their behaviour and changes, generates important information and uses it for its planning, decision-making and control purposes.

On the other hand, the organization itself transmits information to several external agencies either voluntarily, inadvertently or legally.

Exchange of resources: The organization receives inputs — finance, materials, manpower, equipment etc., from the external environment. It sustains itself by employing the above inputs for involving or producing output of products and services.

The organization is also dependent on the external environment for disposal of its output of products and services to a wide range of clientele.

Exchange of influence and power: The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources, information and other inputs. The external environment is also in a position to impose its will over the organization. Governmental control, competitors, customers, suppliers, investors etc., exercise considerable power and influence over the organization.

In turn, the organization itself is sometimes in a position to wield power and influence over the external environment by virtue of its command over resources and information.

6. International economic dynamics accompanied by geographical changes have changed the paradigm of global business. A firm / company who wishes to go global will be guided by the following three types of strategies:

(i) **Multi-domestic strategy:** A multi-domestic strategy focuses on competition within each country in which the firm operates. This Strategy is adopted when a company tries to achieve a high level of local responsiveness by matching their products and services offerings to national conditions prevailing in the countries they operate in. The organization attempts to extensively customize their products and services according to the local conditions of different countries.

(ii) **Global strategy:** A global strategy assumes more standardization of products across country boundaries. Under this strategy, the company tries to focus on a low cost structure by leveraging their expertise in providing certain products and services and concentrating the production of these standard products and services at a few favourable locations around the world. Competitive strategy is centralized and controlled by the home office.

(iii) **Transnational strategy:** Many large multinational firms, particularly those with many diverse products, may use a multi-domestic strategy with some product lines and a global strategy with others. A transnational strategy seeks to combine aspects of both multi-domestic and global strategies. Thus there is emphasizes on both local responsiveness and global integration and coordination. Although the transnational strategy is difficult to implement, environmental trends are causing multinational firms to consider the needs for both global efficiencies and local responsiveness.

When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. The decision as to how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved through following options:

- Exporting.
- Licensing/ Franchising.
- Joint Venture.
- Foreign Direct Investment.

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

The corporate level of management consists of the chief executive officer and other top level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a self-contained division with its own functions - for example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

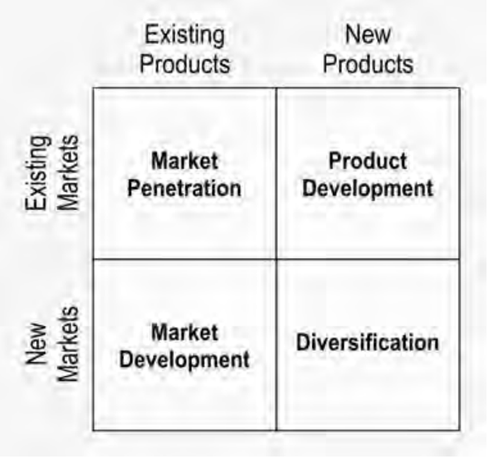
Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general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

8. Decision making is a managerial process and a function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during their day-to-day working. The major dimensions of strategic decisions are given below:

- Strategic issues require top-management decisions: Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved.
- Strategic issues involve the allocation of large amounts of company resources: It may require huge financial investment to venture into a new area of business or the organization may require huge manpower with new set of skills in them.
- Strategic issues are likely to have a significant impact on the long term prosperity of the firm: Generally the results of strategic implementation are seen on a long term basis and not immediately.
- Strategic issues are future oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- Strategic issues usually have major multifunctional or multi-business consequences: As they involve organization in totality they affect different sections of the organization with varying degree.
- Strategic issues necessitate consideration of factors in the firm’s external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.

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

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



Ansoff's Product Market Growth Matrix

Based on the matrix, ABC Ltd. may segregate its different products. Being in pharmaceuticals, development of new products is result of extensive research and involves huge costs. There are also social dimensions that may influence the decision of the company. It can adopt penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company. Product development is refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, the 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.

10. The external analysis process focuses on scanning of environment in which all organizations work as sub-systems. The scanning of external environment leads to the identification of opportunities and threats & opening the organizations to the external world. While the internal analysis leads to the study of strengths and weakness which will decide to what extent each company is going to capitalize the opportunities and threats.

Moreover, strategic thinking judges about the nature of strategy and proceeds to flow directly from analysis of a company's external environment and internal situation. The analytical sequence starts from strategic appraisal of the company's external and internal situations and to evaluate alternatives for implanting the strategy choices. Accurate diagnosis of the company's situation is necessary. Managerial preparation for deciding a sound long term direction is done by setting appraisal alternate and creating a winning strategy.

Understanding of the strategic aspects of a company's external and internal environment, the changes are greatly influenced that how managers will lay out a strategic game plan. Thus, it is a major prospect for building competitive advantage and that is likely to boost company performance.

11. Businesses have to respond to a dynamic and often hostile environment in pursuit of their mission. Strategies provide an integral framework for management and negotiate their way through a complex and turbulent external environment. Strategy seeks to relate the goals of the organisation to the means of achieving them.

A company's strategy is the game plan management is using to stake out market position and conduct its operations. A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organisational objectives.

Strategy may be defined as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness.

The Generic Strategies: According to Glueck and Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

(i) **Stability Strategies:** One of the important goals of a business enterprise is stability to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

(ii) **Expansion Strategy:** Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. It is often characterised by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on. Expansion includes diversifying, acquiring and merging businesses.

(iii) **Retrenchment Strategy:** A business organisation can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse environmental effects, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

(iv) **Combination Strategies:** Stability, expansion or retrenchment strategies are not mutually exclusive. It is possible to adopt a mix to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

12. Many organizations in order to achieve quick growth, expand or diversify use strategies such as mergers and acquisitions. This also helps in deploying surplus funds.

Merger and Acquisition Strategy

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.

Some organizations prefer to grow through mergers. 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.

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 recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization takes over a weaker entity.

Types of Mergers

1. **Horizontal merger:** Horizontal mergers are combinations of firms engaged in the same industry. It is a merger with a direct competitor. The principal objective behind this type of mergers is to achieve economies of scale in the production process by shedding duplication of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on. For example, formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.
2. **Vertical merger:** It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms. If an organization takes over its supplier/producers of raw material, then it leads to backward integration. On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels. Vertical merger results in operating and financial economies. Vertical mergers help to create an advantageous position by restricting the supply of inputs or by providing them at a higher cost to other players.
3. **Co-generic merger:** In co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger include the extension of the product line or acquiring components that are required in the daily operations. It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements. For example, an organization manufacturing refrigerators can diversify by merging with another organization having business in kitchen appliances.
4. **Conglomerate merger:** Conglomerate mergers are the combination of organizations that are unrelated to each other. There are no linkages with respect to customer groups, customer functions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these factors.

13. Management of logistics is a process which integrates the flow of supplies into and out of an organization to achieve a level of service which ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost.

To have an effective logistics strategy, the organization has to ponder the following issues and formulate strategy comfortable with their issues:

- The sources of raw materials and components needed for production of goods.
- To ascertain the number of manufacturing units, their location etc to decide about transport facility.

- Products being produced at different manufacturing location.
- To decide about the different modes of transportation facilities.
- What is the nature of distribution facilities?
- What is the nature of materials handling equipment possessed? Is it ideal?
- What is the method for deploying inventory in the logistics network?
- Should the business organization own the transport vehicles?

14. Research and development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation. R&D employees and managers perform tasks that include transferring complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications.

Technological improvements that affect consumer and industrial products and services shorten product life cycles. Companies in virtually, every industry are relying on the development of new products and services to fuel profitability and growth. Surveys suggest that the most successful organizations use an R&D strategy that ties external opportunities to internal strengths and is linked with objectives. Well formulated R&D policies match market opportunities with internal capabilities. R&D policies can enhance strategy implementation efforts to:

- ♦ Emphasize product or process improvements.
- ♦ Stress basic or applied research.
- ♦ Be leaders or followers in R&D.
- ♦ Develop robotics or manual-type processes.
- ♦ Spend a high, average, or low amount of money on R&D.
- ♦ Perform R&D within the firm or to contract R&D to outside firms.
- ♦ Use university researchers or private sector researchers.

15. Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)! Although inextricably linked, strategy implementation is fundamentally different from strategy formulation.

Strategy implementation is different from strategy formulation. Strategy formulation is an intellectual process but strategy implementation is an operational process. Strategy formulation is positioning forces before the action which focuses on effectiveness whereas strategy implementation is managing forces during the action which focuses on efficiency. Strategy formulation requires good intuitive and analytical skills and coordination among a few individuals but strategy implementation requires special motivation and leadership skills and combination among many individuals. So the strategy implementation is more difficult than strategy formulation.

16. A Strategic Business Unit (SBU) is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses. Products/businesses within an SBU receive same strategic planning treatment and priorities. Products/businesses that are related from the standpoint of "function" are assembled together as a distinct SBU.

Strategic Business Unit (SBU) is beneficial for improving the competitive advantage of a firm in the following ways:

- 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.
- An SBU is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses. Products/businesses within an SBU receive same strategic planning treatment and priorities.
- Products/businesses that are related from the standpoint of "function" are assembled together as a distinct SBU.
- Unrelated products/businesses in any group are separated. If they could be assigned to any other SBU applying the criterion of functional relation, they are assigned accordingly; otherwise they are made into separate SBUs.
- Grouping the businesses on SBU lines helps the firm in strategic planning by removing the vagueness and confusion generally seen in grouping businesses.
- Each SBU is a separate business from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition and strategy-one SBU will be distinct from another.
- Each SBU will have its own distinct set of competitors and its own distinct strategy.
- Each SBU will have a CEO, so it can be managed separately for profit performance and will have better controlling.

17. Medical organisations such as hospitals are often not-for-profit organisations. At the same time there is existence of medical organisations that have commercial interest. Whether they run for profit or are in charitable nature, the tools and techniques of strategic management are equally important. The role of strategic management can be expressed as follows.

Medical organisations need to follow the process of strategic management. They work under complex and turbulent environment with changes in macroeconomic factors covering economic, social, legal, technological factors. They need to set their mission, look for strategic alternatives and implement their chosen strategies, etc. In fact, all the steps in the process of strategic management are relevant for them. Medical organisations may also have survival and growth strategies. Hospitals may diversify to form chain of pathological labs or open pharmaceutical shops. Strategic management can also help in providing better services to the patients.

Like any organisation, medical organisations also compete with each other. Strategic management helps to function and succeed within the competitive pressures.

Thus the role of strategic management in medical organizations is similar to any other organisation. In fact, Hospitals are creating new strategies today with advances in the diagnosis and treatment methods. Hospitals are bringing services to the patient as much as bringing the patient to the hospital. Pathological laboratories have started collecting door-to-door samples. Providing day-treatment facilities, electronic monitoring at home, user-friendly ambulatory services, and laboratory testing.

18. Six sigma means maintenance of the desired quality in processes and end products. It takes a systematic and integrated effort towards improving quality and reducing cost besides meeting and improving the organizational goals related to quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones.

Conclusively, six sigma starts with a dream or vision to have the goal of near perfect products and services and superb customer satisfaction. Managers and leaders should accept the challenge to keep the organization adaptable with the changing environment.

Six sigma is often related to Motorola, the company that has invented it. It pointed out that modern technology was so complex that old ideas about acceptable quality levels are no longer acceptable. The success of Motorola effectively changed the focus of quality worldwide. Many corporate giants like Xerox, Boeing, GE, Kodak etc followed Motorola's lead. In India also Tata’s, WIPRO and Bharti’s and others are effectively reaping the benefits of six-sigma.

With the help of improved technology and other tools, Management is able to enhance the quality of their products and therefore meets the human unending demand for better quality products and services. Six Sigma helps the management to not only restrict itself in satisfying the existing desires of customers or to put boundary on quality by limiting it to current information and perspective of customers rather, it also helps to be futuristic i.e., in addition to meeting customer’s present expectations it should also be able to improve them.