

## BUSINESS POLICY AND STRATEGIC MANAGEMENT

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### Question 1

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

- (a) *Retrenchment implies downsizing of business.* (May, 2007)
  - (b) *Strategy is a substitute for Sound, Alert and Responsible management.* (Nov., 2008)
  - (c) *Strategic management is not needed in non-profit Organisations.* (Nov., 2008)
  - (d) *All strategies emerge from Corporate vision.* (Nov., 2008)
  - (e) *Strategic management is a bundle of tricks and magic.* (June, 2009)
- (2 Marks each)

### Answer

- (a) **Incorrect:** In the context of strategic management, retrenchment implies giving up certain products and reducing the level of business as a compulsive measure to cope up with certain adverse developments on which the firm has little control. Downsizing (or rightsizing) is planned elimination of positions or jobs. Retrenchment does not imply downsizing, however, the latter is often used to implement a retrenchment strategy.
- (b) **Incorrect** – Strategy is not substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. Strategies are goal-directed decision and actions in which capabilities and resources are matched with the opportunities and threats in the environment. A good management at the top can steer the organizations by adjusting its path on the basis of the changes in the environment.
- (c) **Incorrect** – Strategic management applies equally to profit as well as non-profit organizations. Though non-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.
- (d) **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.

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- (e) **Incorrect:** No, Strategic management is not a bundle of tricks and magic. 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.

### Question 2

*Briefly answer the following questions in 2-3 sentences each:*

- (a) *What is a mission statement?* (May, 2007)  
(b) *What is meant by retrenchment strategy?* (May, 2008)  
(c) *State the points that may be considered while writing a mission statement of a Company.* (Nov., 2009)  
(2 Marks each)

### Answer

- (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) 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) 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.

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

- (i) To establish the special identity of the business - one that typically distinct it from other similarly situated companies.
- (ii) Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.
- (iii) Good mission statements should be unique to the organisation for which they are developed.

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- (iv) The mission of a company should not be to make profit surpluses may be required for survival and growth, but can not be mission of company.

### Question 3

*What do you understand by 'Strategy'? Explain the four generic strategies as discussed by Glueck and Jauch. (10 Marks) (May, 2007)*

### Answer

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.

### 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 include 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

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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.

### Question 4

*What is Strategic Management? What benefits accrue by following a strategic approach to managing?*  
(5 + 5 = 10 Marks) (Nov., 2007)

### Answer

- (b) 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. 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

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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.

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## NOTE

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