

SECTION –B: STRATEGIC MANAGEMENT

Question No. 7 is compulsory

*Answer any **four** questions from the rest.*

Question 7

- (a) *Explain the concept of competitive advantage.*
- (b) *Describe the term 'Strategic Vision'.*
- (c) *Explain the meaning of Directional Strategy.*
- (d) *Explain the meaning of core competencies.*
- (e) *Describe the term 'Co-generic merger'.* **(5 x 2 = 10 Marks)**

Answer

- (a) **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 achieved advantage over rivals when a company's profitability is greater than average profitability of firms in its industry. It is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry. Competitive advantage may also be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large.
- (b) **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) **Directional strategies**, also called **grand strategies**, provide basic directions for strategic actions towards achieving strategic goals. Such strategies are formulated at the corporate level so are also **known as corporate strategies**. The corporate strategies a firm can adopt have been **classified into four broad categories: stability, expansion, retrenchment, and combination**.
- (d) **A core competence is a unique strength** of an organization which may not be shared by others. It is defined as a combination of skills and techniques rather than individual skill or separate technique. 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.

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- (e) **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 business to diversify around a common set of resources and strategic requirements.

Question 8

Which of the following statements are 'correct' and which are 'incorrect'?

Give reasons, in brief, for your answer:

- (a) *Non-profit organizations do not require Strategic Management.*
- (b) *Human Resource Manager's role is significant in building up core competency of the firm.*
- (c) *Corporate culture is always identical in all the business organizations.*
- (d) *Marketing function has no relation with production function.*
- (e) *Economies of scale discourages new entrants.* **(5 x 2 = 10 Marks)**

Answer

- (a) **Incorrect:** Strategic management applies equally to profit as well as non-profit organisations. Similar to commercial organizations, 'not-for-profit' organizations must also have strategies, purpose, vision and mission also. Strategic Management is required to give direction, focus and lead to efficient utilization of resources. In many 'not-for-profit' organizations surpluses are important for their survival and growth.
- (b) **Correct:** The human resource manager has a significant role to play in developing core competency of the firm. A core competence is a unique strength of an organization which may not be shared by others. Core-competencies can be generated and maintained only through the effective management of human resources and their skills.
- (c) **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 is not identical in all organisations. Organisations over a period of time inherit and percolate down its own specific work ethos and approaches.
- (d) **Incorrect:** Marketing function and production function complement each other. They need to work in tandem to produce goods as per the needs and preferences of the customers. Marketing links the production with the customers.
- (e) **Correct:** Economies of scale leads to decline in the per-unit cost of production (or other activity) as volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs. This tends to discourage new entrants.

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Question 9

- (a) XYZ Ltd. is a multi-product company, suffering from continuous losses since last few years and has accumulated heavy losses which have eroded its net worth.

What strategic option is available to the management of this sick company? Advise with reasons. **(5 Marks)**

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

Analyse the leadership style followed by Ram and Shyam. **(5 Marks)**

Answer

- (a) XYZ Ltd. is a sick company with accumulated losses that have eroded its net worth. The multi-product company may analyse its various products to take decisions on the viability of each. **The company may consider retrenchment strategy.** Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal.

Retrenchment strategy is adopted because of continuous losses and unviability and stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

Retrenchment strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. **These steps result in different kinds of retrenchment strategies as follows:**

Turnaround strategy: If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate revenue, improve coordination, better control, and so on.

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.

Liquidation Strategy: In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.

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The management of multiproduct sick company manufacturing various items need to understand pros and cons of each strategic option. The decision will depend upon the specific circumstances of each product and management goals of the company.

- (b) **Ram is a follower of *transactional leadership style*** that focuses on designing systems and controlling the organization's activities. Such a leader believes in using authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

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

Question 10

- (a) *Define Strategic Management. Also discuss the limitations of Strategic Management.*
(5 Marks)
- (b) *Describe the principal aspects of strategy-execution process, which are included in most situations.*
(5 Marks)

Answer

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

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

- ◆ **Environment is highly complex and turbulent.** It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.
- ◆ **Strategic Management is a time-consuming process.** Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.

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- ◆ **Strategic Management is a costly process.** Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.
 - ◆ **Competition is unpredictable.** In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.
- (b) **Implementation or execution** is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. In most situations, strategy-execution process includes the following principal aspects:
- ◆ **Developing budgets** that steer ample resources into those activities that are critical to strategic success.
 - ◆ **Staffing the organization with the needed skills and expertise**, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
 - ◆ **Ensuring that policies and operating procedures facilitate** rather than impede effective execution.
 - ◆ **Using the best-known practices to perform core business activities** and pushing for continuous improvement.
 - ◆ **Installing information and operating systems** that enable company personnel to better carry out their strategic roles day in and day out.
 - ◆ **Motivating people to pursue the target objectives energetically.**
 - ◆ **Creating culture and climate conducive** to successful strategy implementation and execution.
 - ◆ **Exerting the internal leadership** needed to drive implementation forward and keep improving strategy execution.

Question 11

(a) *Explain briefly the competitive forces in any industry as identified by Michael Porter.*

(5 Marks)

(b) *Define the term 'Marketing'. Distinguish between social marketing and service marketing.*

(5 Marks)

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Answer

(a) Five forces model of Michael Porter is a popular tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five forces as follows:

1. **Threat of new entrants:** New entrants place a limit on prices and affect the profitability of existing players. The new capacity and product range the new entrants bring increases competitive pressure. bigger the new entrant, the more severe the competitive effect.
2. **Bargaining power of customers:** The bargaining power of the buyers influences not only the prices that the producer can charge but also influence costs and investments of the producer. This force will become heavier depending on the possibilities of the buyers forming groups or cartels, particularly in case of industrial products.
3. **Bargaining power of suppliers:** Often suppliers can exercise considerable bargaining power. 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, can affect 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. The impact is evident more at functional level in the prices being charged, advertising, and pressures on costs, product and so on.
5. **Threats from substitutes:** Substitute products are a latent source of competition in an industry. Substitute products offering a price advantage and/or performance improvement to the consumer can have significant impact.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability.

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

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

On the other hand, **service marketing is applying the concepts, tools, and techniques, of marketing to services.** Service is any activity or benefit that one party can offer to another that is essentially intangible and non-perishing. These may be from business to consumer and from business to business.

Question 12

- (a) *Explain the concept and need of Strategy Audit. Why is it more difficult in present scenario?* **(7 Marks)**
- (b) *Explain different types of strategic control in brief.* **(3 Marks)**

OR

Write a short note on SWOT analysis.

Answer

- (a) **A strategy audit is an examination and evaluation of areas affected by the operation of a strategic management process within an organization.** The audit of management performance with regard to its strategies helps an organization identify problem areas and correct the strategic approaches that have not been effective.

Strategy audit is needed under the following conditions :

- (a) When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- (b) When the goals and objectives of the strategy are not being accomplished.
- (c) When a major change takes place in the external environment of the organization.
- (d) When the top management plans:
- i. to fine-tune the existing strategies and introduce new strategies and
 - ii. to ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.

The difficulties in strategy audit can be explained in terms of following trends:

- ◆ A dramatic increase in the environment's complexity.
- ◆ The increasing difficulty of predicting the future with accuracy.
- ◆ The increasing number of variables in the environment.
- ◆ The rapid rate of obsolescence of even the best plans.
- ◆ The increase in the number of both domestic and world events affecting organizations.
- ◆ The decreasing time span for which planning can be done with any degree of certainty.

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- (b) **Strategic Control** focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended. **There are four types of strategic control:**
- (a) **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
 - (b) **Strategic surveillance:** Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.
 - (c) **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
 - (d) **Implementation control:** managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and result.

or

SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, 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.

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

The major purpose of SWOT analysis is to enable the management to create a firm-specific business model that will best align, fit or match an organisational resources and capabilities to the demands for environment in which it operates.

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