

PAPER 7 - SECTION – B: STRATEGIC MANAGEMENT

Question paper comprises of 5 questions, Answer Question No. 6 which is compulsory and any 3 out of the remaining 4 questions.

Question 6

Quick N Sturdy Inc., a multinational company, is undergoing feasibility study to introduce new luxury and sports car for specific group of customers. The product is meant for customers with distinctive preferences and special requirements. The product is not a standard one and as such the target market is also narrow. Company knows that demand for the product is large enough to be profitable for the company, but small enough to be ignored by other major industry players. The company wants to position itself in the niche market with the prime consideration to offer unique features in the product for the target market.

In the given situation, identify the generic strategy as suggested by Michael Porter. Also state the advantages and disadvantages of such strategy. **(1 + 2 + 2 = 5 Marks)**

Answer

Quick N Sturdy Inc. has adopted **Focused Differentiation Strategy** which is one of the Michael Porter's Generic strategies. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. **Firms that compete based on uniqueness and target a narrow market are following a focused differentiation strategy.**

Advantages of Focused Strategy

1. Premium prices can be charged by the organisations for their focused product/services.
2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high, which can cause problems.
3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

Question 7

- (a) "The strategic management cannot counter all hindrances and always achieve success for an organization." Do you agree with this statement? Give arguments in support of your answer. **(1+ 4 = 5 Marks)**

- (b) *You have been appointed as a Chief Executive Officer (CEO) in a company which is facing many difficulties in proper execution of its strategy. Explain the leadership roles which you should play in pushing for good strategy execution. (5 Marks)*

Answer

- (a) **Yes**, it is true that the presence of strategic management cannot counter all hindrances and always achieve success for an organization. This is on account of complex multiple forces acting on business organization and limiting its success.

These limitations are on account of following factors:

- ◆ **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.
 - ◆ **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.
 - ◆ **Strategic management is a costly process.** Strategic management adds a lot of expenses to an organization – particularly to small and medium organisations. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement.
 - ◆ **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) A Chief Executive Officer (CEO) 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. Managers have five leadership roles to play in pushing for good strategy execution:
1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
 2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
 3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
 4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.

5. Pushing corrective actions to improve strategy execution and overall strategic performance.

Question 8

- (a) *A company started its operation in 2015 with Product Alpha. In early 2021, with intent to have its better presence in the market, the company diversifies by acquiring a company with product Beta. After sometime, it was observed that product Beta is not faring well. Aggressive competition was therein market for the product. It was also revealed that though customers are not price sensitive, but product was not keeping pace with the fast changing unique features as expected by its customers.*

Company has tried one of the retrenchment strategies by putting efforts to improve its internal efficiency, but could not get desired results. In the situation, company is of a considered view to remain and grow in product alpha and to decouple with product Beta from its portfolio.

As a strategist, suggest the retrenchment strategy to be adopted by the company. Also delineate reasons why a company should adopt such strategy? (1+ 4 = 5 Marks)

- (b) *What is cost leadership strategy? Under what circumstances an organization can gain competitive advantages from cost leadership strategy? Is there any risk in pursuing cost leadership strategy? (1+ 3 + 1 = 5 Marks)*

Answer

- (a) As per the facts of the case, company had tried to improve its internal efficiency. In other words, had tried turnaround strategy but could not get the desired results.

Company does not want to go for complete close down of business. Rather it wants to continue and grow in its original business i.e. product Alpha.

As a strategist, it is advisable that the company should adopt **divestment strategy**. In the given situation where the business of product Beta is not faring well and became unprofitable and unviable due to aggressive competition in the market, the best option for the company is to divest the product Beta which is loss-making business.

Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy.

A divestment strategy may be adopted due to various reasons:

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.

3. Severity of competition and the inability of a firm to cope with it may cause it to divest.
 4. It is not possible for the business to do Technological up-gradation that is required for the business to survive, a preferable option would be to divest.
 5. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable business.
- (b) **Cost leadership strategy** 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.

The circumstances in which an organization can gain competitive advantages from cost leadership strategy are:

- ◆ when the market is composed of many price-sensitive buyers.
- ◆ when there are few ways to achieve product differentiation.
- ◆ when buyers do not care much about differences from brand to brand.
- ◆ when there are a large number of buyers with significant bargaining power.

The basic idea is to underprice competitors and thereby gain market share driving some of the competitors out of the market.

Some risks of pursuing cost leadership are:

- ◆ that competitors may imitate the strategy, therefore driving overall industry profits down
- ◆ that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.

Question 9

- (a) "The TOWS Matrix is a tool for generating strategic options/choices." Do you agree with this statement? How it can help a strategist in decision making? **(1 + 4 = 5 Marks)**
- (b) "Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives." In the light of this statement, discuss the elements of strategic intent. **(5 Marks)**

Answer

- (a) **Yes**, 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): Aggressive strategy - 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): Conservative strategy - ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

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

WT (Mini-Mini): Defensive strategy - 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.

The matrix is outlined below:

Internal External	Strengths – S List Strengths	Weaknesses – W List Weaknesses
Opportunities – O List Opportunities	SO Strategies Use strengths to take advantage of opportunities	WO Strategies Overcoming weaknesses by taking advantage of opportunities
Threats – T List Threats	ST Strategies Use strengths to avoid threats	WT Strategies Minimize weaknesses and avoid threats

Figure: The TOWS Matrix

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

- (b) Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organization endeavours to achieve. It is a statement that provides a perspective. Strategic intent gives an idea of what the organization desires to attain in future. Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.

Elements of strategic management are as follows:

- (i) **Vision:** Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organisation's aspirations and

provides a glimpse of what the organization would like to become in future. Every sub system of the organization is required to follow its vision.

- (ii) **Mission:** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.
- (iii) **Business Definition:** It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices.
- (iv) **Business Model:** Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details. Rival firms, operating in the same industry rely on the different business model due to their strategic choice.
- (v) **Goals and Objectives:** These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan. However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

Question 10

- (a) *The growth rate of A & B Ltd. growth rate was around 10% per annum during the last decade. But thereafter its growth rate started falling and presently the growth rate of the company is very low around 1%. The company is facing twin problems, one the strategy is not implemented as planned; and two the results produced by the strategy are not in conformity with intended goals.*

You being a strategy consultant, advise the tool for audit of management performance. Also explain the need of such tool and its basic activities. (1 + 2 + 2 = 5 Marks)

- (b) *"A well designed strategic management system can fail if insufficient attention is given to the human resource dimension." ·Elucidate this statement. (5 Marks)*

OR

Write short note on Strategic Business Unit (SBU).

Answer

- (a) A & B Ltd. reviews its business plans and strategies on regular basis to identify weaknesses and shortcomings to enable a successful development plan. 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:

- ◆ When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- ◆ When the goals and objectives of the strategy are not being accomplished.
- ◆ When a major change takes place in the external environment of the organization.
- ◆ When the top management plans:
 - (a) To fine-tune the existing strategies and introduce new strategies; and
 - (b) 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.

Adequate and timely feedback is the cornerstone of effective strategy audit. Strategy audit can be no better than the information on which it is based.

Strategy Audit includes three basic activities:

1. Examining the underlying bases of a firm's strategy,
 2. Comparing expected results with actual results, and
 3. Taking corrective actions to ensure that performance conforms to plans.
- (b) A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when a business implements strategies can usually be traced to one of three causes: (1) disruption of social and political structures, (2) failure to match individuals' aptitudes with implementation tasks, and (3) inadequate top management support for implementation activities.
- i. **Disruption of social and political structures:** Strategy implementation poses a threat to many managers and employees in an organization. New power and status relationships are anticipated and realized. New formal and informal groups' values, beliefs, and priorities may be largely unknown. Managers and employees may become engaged in resistance behaviour as their roles, prerogatives, and power in the firm change. Disruption of social and political structures that accompany strategy execution must be anticipated and considered during strategy formulation and managed during strategy implementation.
 - ii. **Failure to match individuals' aptitudes with implementation tasks:** A concern in matching managers with strategy is that jobs have specific and relatively static responsibilities, although people are dynamic in their personal development. Commonly used methods that match managers with strategies to be implemented

include transferring managers, developing leadership workshops, offering career development activities, promotions, job enlargement, and job enrichment.

It is surprising that so often during strategy formulation; individual values, skills, and abilities needed for successful strategy implementation are not considered. It is rare that a firm selecting new strategies or significantly altering existing strategies possesses the right line and staff personnel in the right positions for successful strategy implementation. The need to match individual aptitudes with strategy-implementation tasks should be considered in strategy choice.

- iii. **Inadequate top management support for implementation activities:** Inadequate support from strategists for implementation activities often undermines organizational success. Chief executive officers, small business owners, and government agency heads must be personally committed to strategy implementation and express this commitment in highly visible ways. Strategists' formal statements about the importance of strategic management must be consistent with actual support and rewards given for activities completed and objectives reached. Otherwise, stress created by inconsistency can cause uncertainty among managers and employees at all levels.

OR

SBU is a part of a large business organization that is treated separately for strategic management purposes. It is separate part of large business serving product markets with readily identifiable competitors. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Very large organizations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units. SBU structure becomes imperative in an organization with increase in number, size and diversity.

The three most important characteristics of a 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.
- It has its own set of competitors.
- It has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

Benefits of SBUs:

1. Establishing coordination between divisions having common strategic interest.
2. Facilitate strategic management and control.

3. Determine accountability at the level of distinct business units.
4. Allow strategic planning to be done at the most relevant level within the total enterprise.
5. Make the task of strategic review by top executives more objective and more effective.
6. Help to allocate resources to areas with better opportunities.

Thus, an SBU structure with its set of advantages would be most suitable for the company with the given diverse businesses having separate identifiable competitors, but a common organizational goal.