

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**

Ramesh and Suresh own software development firms ACS Ltd. and BDS Ltd. Ramesh and Suresh pitch their business in international markets and win international contracts. Ramesh has fifty software engineers in his team. Suresh, on the other hand, leads a team of forty software engineers. Every project has a specific and fixed timeline. Individual projects are assigned to project heads by Ramesh and Suresh. Ramesh adheres to strict rules and procedures. He met with the project heads to get an update but exchanged ideas occasionally. He set a weekly target of forty hours to complete the assigned goal or task. The group that met the deadline and completed the task received a 10% bonus. The group that was unable to meet the deadline was penalized. The group that did not meet the deadline was penalized with unpaid extra working hours to complete the task. Suresh, unlike Ramesh, did not priorities a structured approach to work. Suresh inspired the project managers by making them feel like leaders rather than just participants. Suresh's empowering attitude helped to align individual goals with group goals. Ramesh established routines to maximize his team efficiency. Suresh, on the other hand, used positive reinforcement to maximize his team efficiency.

- (a) Identify the leadership style employed by Ramesh and Suresh.
- (b) What are the conditions/situations that make such leadership styles more appropriate?
- (c) Discuss the characteristics of the leadership styles.

**Answer**

- (i) **Ramesh adopted transactional leadership style, while Suresh adopted transformational leadership style.**
- (ii) Transactional leadership style can be **appropriate in settled and static environment, in growing or mature industries and in organizations that are performing well.**  
Transformational leadership style may be **appropriate in turbulent environment**, 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.
- (iii) **Transactional leadership style uses the authority** of its office to exchange rewards such as pay, status symbols etc. **Transactional leaders prefer a more formalized approach** to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. **Transactional leaders focus mainly to build on existing culture and enhance current practices.**

**Transformational leadership style uses charisma and enthusiasm** to inspire people to exert them for the good of organization. **Transformational leaders inspire employees by offering excitement, vision, intellectual stimulation and personal satisfaction.**

#### Question 7

- (a) *"Management at all levels develop strategies". Explain the different strategies formulated at different levels of management.*
- (b) *"The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends on characteristics of resources and capabilities". Explain this statement.*

#### Answer

- (a) At different levels of management, various strategies are formulated to align with organizational goals and objectives which are as follows:

**Corporate-Level Strategies:** At the **highest level of management**, corporate-level strategies are developed. **These strategies focus on the overall direction and scope of the entire organization.** Major corporate-level strategies include **Stability strategies, Growth strategies, Retrenchment strategies and Combination strategies.**

**Business-Level Strategies:** Business-level strategies are developed by **middle-level management** and focus on individual business units or divisions within the organization. **These strategies aim to achieve competitive advantage within specific markets.** Common business-level strategies include **Cost Leadership, Differentiation and Focus strategies.**

**Functional-Level Strategies:** Functional-level strategies are formulated by **lower-level management** or department heads responsible for specific functional areas, such as marketing, finance, operations, or human resources. **These strategies align with business-level strategies and focus on achieving functional objectives.** These strategies include **Marketing strategies, Financial strategies, Operations strategies, Research & Development strategy and Human Resource strategies.**

In conclusion, management at all levels develops strategies that align with the organization's goals. ***Corporate-level strategies determine the overall direction, business-level strategies focus on competitive advantage within specific markets, and functional-level strategies aim to achieve functional objectives in support of the broader strategies.***

- (b) The sustainability of competitive advantage and a firm's ability to earn profits from it depends, to a great extent, upon four major characteristics of resources and capabilities which are as follows:
1. **Durability:** The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.
  2. **Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.
  3. **Imitability:** If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.
  4. **Appropriability:** Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

**Question 8**

- (a) *Health Pharma Pvt. Ltd. (HPPL) a one person company with limited liability is manufacturing generic and medicinal drugs in India.*

*Hygiene Laboratories Plc. (HLP) a multinational company with its strong financial position is one of the major players in pharmaceutical sector.*

*Individually, each company has its own core competencies. However, additional focus by the state on generic medicine with renewed regulatory requirements are posing challenges in fierce competitive environment.*

*Considering benefits of synergies, both the companies are considering to join hands for better growth opportunities. Earlier, they tried to go for joint venture or strategic alliance but the arrangement could not materialize.*

*In view of the facts given above:*

- (i) If HPPL and HLP join hands and make new entity named Health N Hygiene Pharma Ltd., what type of growth strategy will this strategic development be?*
  - (ii) In case, HLP is sold out to HPPL and HLP ceased to exist, what type of growth strategy will this strategic deal be?*
  - (iii) What are the differences between the above two identified growth strategies?*
- (b) Buyers of an industry's products or services can sometimes exert considerable pressure on the company. In the light of the five forces as propagated by Michael Porter explain this force. Also state as to when this leverage is evident.*

#### **Answer**

- (a) (i)** If HPPL and HLP join hands and form a new entity named Health N Hygiene Pharma Ltd., this strategic development would be considered a Merger growth strategy. A merger is a combination of two or more companies to form a new entity with shared ownership and control.
- (ii)** If HLP is sold out to HPPL and HLP ceases to exist, this strategic deal would be categorized as an Acquisition growth strategy. An acquisition occurs when one company purchases another, resulting in the acquiring company gaining control over the acquired company's assets, operations, and intellectual property.
- (iii)** Many organizations in order to achieve quick growth, expand or diversify with the use of mergers and acquisitions strategies. 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.

**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.**

While, 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 economic recession or during declining profit margins. In this process,

one that is financially stronger and bigger establishes its 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.

- (b) **Bargaining Power of Buyers:** This is another force that influences the competitive condition of an industry. **This force becomes heavier depending on the possibility of buyers forming groups or cartels.** Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or even 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 costs and investments of the producer.** This is because powerful buyers usually bargain for better services which involves more investment on the part of the producer.

Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services. This leverage is particularly evident when;

- (i) Buyers have full knowledge of the source(s) of products and their substitutes. Thus, challenging the price being charged by producers.
- (ii) They spend a lot of money on the industry's products i.e. they are big buyers. Thus, in a position to demand favourable terms of contract.
- (iii) The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

#### Question 9

- (a) *Strategic planning is an important constituent of strategic management. In the light of the same explain the meaning of strategic planning. Also outline the characteristics of strategic planning.*
- (b) *"Strategic control focuses on implementation and results produced by the strategy". Explain strategic control along with its different types.*

#### Answer

- (a) **Yes, strategic planning is an important constituent of strategic management.** It is a process of determining organizational strategy. **It gives directions to the organization and involves making decisions and allocating resources to pursue the strategy.** It is the formal blueprint of future course of an organization.

**Strategic plans are made by the senior management** for the entire organization after taking into account the **organization strength and weaknesses** in the light of opportunities and threats in the external environment. They involve **acquisition and allocation of resources for the attainment of organizational objectives**.

Strategic planning deals with one or more of three key questions:

- What are we doing?
- For whom do we do it?
- How to improve and excel?

**Following are the characteristics of strategic planning:**

- Strategic planning shapes the organisation and its resources.
- Strategic planning assesses the impact of environmental variables.
- Strategic planning takes a holistic view of the organisation.
- Strategic planning develops overall objectives and strategies.
- Strategic planning is concerned with the long-term success of the organisation.
- Strategic planning is a senior management responsibility.

**(b) Strategic control focuses on implementation and results produced by the strategy.**

It 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:

- ◆ **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.
- ◆ **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.
- ◆ **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.
- ◆ **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.

**Question 10**

- (a) *Changes in environmental forces often require businesses to make modifications in their existing strategies. In view of the same explain the areas to be focused while considering concept of strategic change. Also explain the steps to initiate strategic change process.*
- (b) *Ratu has been as CEO of PRO Ltd. He is given the responsibility of developing new products and improving old products. He is facing a conflict whether the firm should develop research and development expertise internally or outsource it to external agency. What guidelines will help Ratu to make this decision?*

OR

*You have been appointed as head of the Strategic Business Unit (SBU) of a large multiproduct company. Explain the leadership roles, you have to play as a Manager in pushing for good strategy execution.*

**Answer**

- (a) 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 that 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 facets of the corporate culture that are strategy supportive or not. The idea is to 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. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance.
- (iii) **Institutionalize the change:** 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. All these changes should be set up as a practice to be followed by the organization and be able to transfer from one level to another as a well settled practice.
- (b) A critical question is whether PRO Ltd. should develop research and development expertise internally or outside to external agencies. **The answer to this critical question mainly depends on rate of technology progress and rate of market**

**growth.** The following guidelines can be used by Ratu, the CEO of PRO Ltd. to help make this decision:

- ◆ **If the rate of technical progress is slow, the rate of market growth is moderate,** and there are significant barriers to possible new entrants, then **in-house R&D is the preferred solution.** The reason is that R&D, if successful, will result in a temporary product or process monopoly that the company can exploit.
- ◆ **If technology is changing rapidly and the market is growing slowly,** then a **major effort in R&D may be very risky,** because it may lead to the development of an ultimately obsolete technology or one for which there is no market.
- ◆ **If technology is changing slowly but the market is growing quickly,** there generally is not enough time for in-house development. The prescribed approach is **to obtain R&D expertise on an exclusive or non-exclusive basis from an outside firm.**
- ◆ **If both technical progress and market growth are fast,** R&D expertise should be **obtained through acquisition** of a well-established firm in the industry.

*Or*

A head of the strategic business unit (SBU) 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.